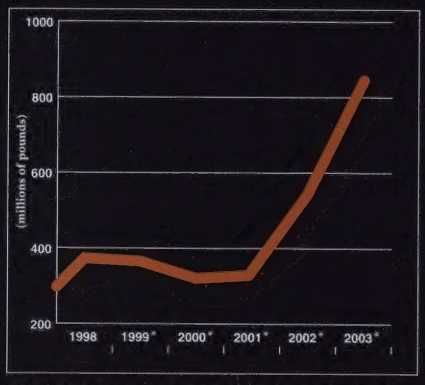
AR56

Rio Algom

ANNUAL REPORT 1998

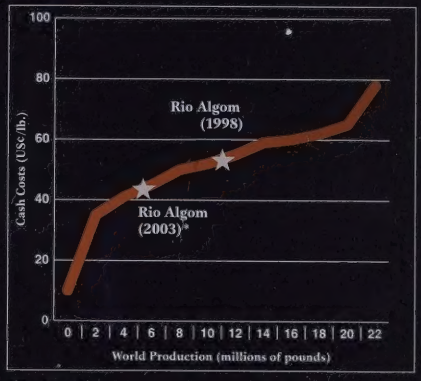
Growing Down the Cost Curve

RIO ALGOM COPPER PRODUCTION



**Projected figures after 1998 (excludes production from Highland Valley Copper after May 1999)*

WORLD COPPER CASH-COST CURVE
YEAR 2000



** Projected*

Rio Algom is "growing down the cost curve" by investing in large-tonnage deposits of copper and other base metals that will support low-cost production. In 1998, copper production increased by 50% to 373 million pounds, while cash costs declined 16% to US$0.51 per pound. As indicated in the charts above, the company is developing projects that will more than double annual copper production over the next several years and lower cash costs to the mid-US$0.40 per pound range, well down the global cost curve. Through this growth, Rio Algom will be well positioned to take full advantage of the next upturn in metal prices.

CORPORATE PROFILE Rio Algom Limited is a growing international mining and metals distribution company based in Toronto, Canada. For 39 consecutive years, since its incorporation in 1960, it has recorded profits and paid dividends to shareholders.

Mining: Rio Algom currently produces copper, gold, uranium, molybdenum and coal from mines in Chile, Argentina, the United States and Canada. The company has a 37.5% interest in a major copper-zinc mine under construction in Peru and a wholly owned copper project at the pre-feasibility stage in Chile. It is also active in mineral exploration in North and South America, Europe and Africa.

Metals Distribution: With 59 centres serving more than 50,000 customers, Rio Algom's wholly owned North American Metals Distribution Group is one of the largest distributors of stainless steel and aluminum on the continent.

Rio Algom's widely held common shares trade under the symbol "ROM" on the Toronto and Montreal stock exchanges in Canada and on the American Stock Exchange in the United States.

Cover: Copper cathodes from the Cerro Colorado mine are loaded onto a ship bound for Japan at the port of Iquique in northern Chile.

1998

Building Profitable Growth

Rio Algom and partners move ahead with development of US$2.26 billion Antamina project. *Page 7*

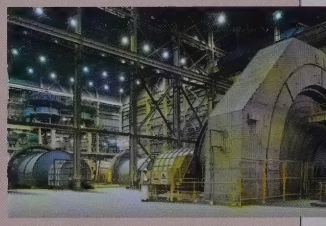
Pre-feasibility work advances at the Spence deposit in Chile. *Page 7*

Metals distribution bolstered by acquisition of Ideal Metal Inc. *Page 23*

Operating Quality Assets Effectively

Cerro Colorado achieves record production, reduces cash costs and successfully completes expansion project. *Page 14*

Alumbrera reaches commercial production in February and by year-end is achieving most of its design targets. *Page 15*



Managing Finances For Growth

Rio Algom strengthens balance sheet with US$150 million issue of preferred securities. *Page 33*

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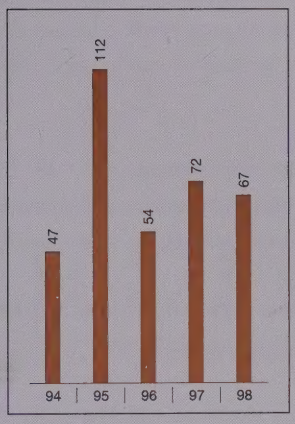
	1998	1997	1996	1995	1994
Prices					
Copper (LME spot US$/lb.)	0.75	1.03	1.04	1.33	1.05
Gold (London spot US$/oz.)	294	331	388	384	384
Zinc (LME spot US$/lb.)	0.46	0.60	0.47	0.47	0.45
Profitability ($ millions)					
Revenue	2,004	1,835	1,833	1,982	1,109
Operating profit	112	198	146	269	140
Earnings from continuing operations	34	81	52	136	64
Earnings from discontinued operations	-	-	34	7	9
Net earnings	34	81	86	143	73
Cash flow from continuing operations	77	131	75	189	71
Financial condition ($ millions)					
Cash and short-term investments	175	148	224	314	386
Short-term debt	20	4	8	-	5
Long-term debt	303	291	408	441	287
Total shareholders' equity	1,950	1,630	1,141	998	905
Current ratio[1]	2.2	2.7	2.6	2.4	3.3
Debt to debt plus total equity (%)	13	15	26	31	24
Common share information					
Common shareholders' equity ($ millions)	1,434[2]	1,354[3]	1,141	998	905
Shares outstanding (millions)					
- end of period	60.6	60.6	56.0	52.1	52.0
- average	60.6	60.1	55.2	52.0	50.7
Share price ($)					
- high	29.50	37.55	32.25	29.63	27.13
- low	15.00	23.75	23.38	22.63	21.00
- close (Dec. 31)	16.40	24.15	30.60	25.38	26.75
Earnings per share ($)	0.31	1.19	1.57	2.76	1.44
Dividends per share ($)	0.49	0.70	0.70	0.60	0.60
Cash flow per share ($)[4]	1.77	2.18	1.50	4.03	2.23
Book value per share ($)[5]	23.65	22.35	20.39	19.15	17.41
Market capitalization ($ millions)[6]	994	1,463	1,714	1,322	1,391

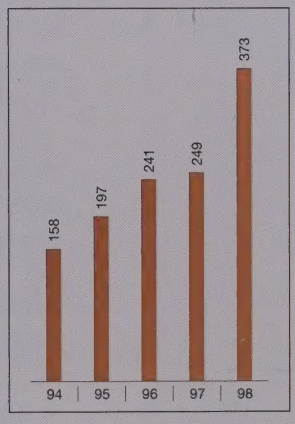
(1) Current assets divided by current liabilities
(2) Excludes preferred securities issued in 1998 and equity component of convertible debentures issued in 1997
(3) Excludes equity component of convertible debentures issued in 1997
(4) Cash flow from operations divided by the average number of common shares outstanding for the year
(5) Common shareholders' equity at December 31 divided by the number of shares outstanding at year end
(6) Closing price at December 31 multiplied by the number of shares outstanding at year end

RIO ALGOM is committed to building long-term value for shareholders through growth in long-life, low unit-cost base metal deposits, supported by a strong balance sheet and prudent financial management. A number of key measures are reviewed below to demonstrate the company's performance over the last five years. In 1998, copper prices reached their lowest levels in over a decade, which adversely affected the company's financial performance and its share price. However, several measures showed strong improvement, including copper production and cash costs.

METALS DISTRIBUTION
operating profit (C$ millions)

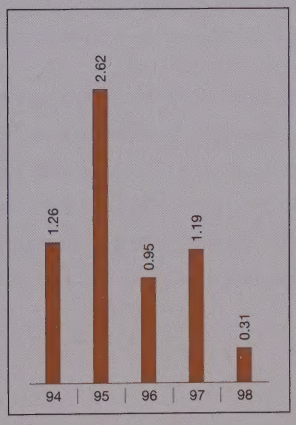


COPPER PRODUCTION
millions of pounds

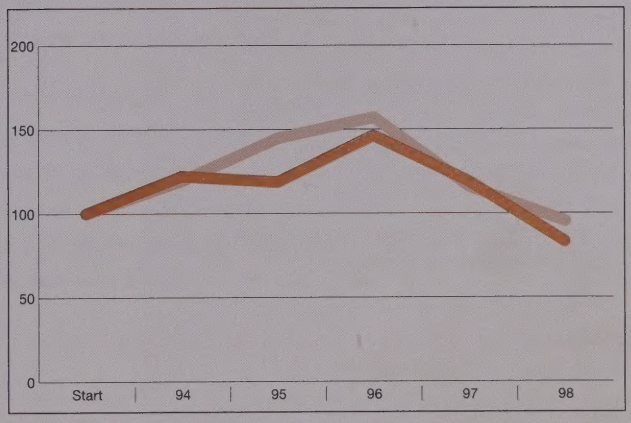


AVERAGE CASH COSTS
US$ per pound of copper

EARNINGS FROM CONTINUING OPERATIONS
C$ per common share



FIVE-YEAR TOTAL RETURN*



Rio Algom (17%) TSE Metals & Minerals Index (5%)

** % return on $100 invested on January 1, 1994 assuming reinvestment of dividends*

PERFORMANCE

1998

O: Increase copper production by 50% to 380 million pounds.

Total copper production increased to 373 million pounds, 98% of target.

O: Reduce average cash costs for copper production by 10% to US$0.55 per pound.

Average cash costs were US$0.51 per pound, down 16% from US$0.61 per pound in 1997.

O: Complete the Cerro Colorado expansion on schedule by mid-year, and within the project budget of US$208 million (including contingency).

The expansion was completed on schedule, in the third quarter, at a total cost of US$214 million.

O: Complete the feasibility study at Antamina.

The feasibility study was completed in March. In September the decision was made to go ahead with the project.

O: Complete bulk sampling, metallurgical and pre-feasibility work at Spence.

At year-end this work was continuing, reflecting an increase in the scope of metallurgical testing. Pre-feasibility work is now scheduled for completion in 1999.

O: Achieve a return on capital employed of 18%-20% from the metals distribution business.

The North American Metals Distribution Group achieved a pre-tax return on capital employed of 14% in 1998. The shortfall related to reductions of 10% and 4% in the respective average selling prices of stainless steel and aluminum, and to the addition of capital for the acquisition of Ideal Metal Inc.

O: Ensure all operations and projects are operated safely and in full environmental compliance.

The company reported no environmental non-compliance events at its controlled operations in 1998. Also, the average lost-time accident frequency rate among full-time employees at Rio Algom's operations improved to 0.53 accidents per 200,000 working hours in 1998 from 0.87 accidents in 1997.

OBJECTIVES

1999

- Achieve copper production of 365 million pounds. (Reduction from 1998 reflects the expected shut-down of Highland Valley Copper on May 15, 1999.)

- Reduce average cash costs for copper production by 8% to US$0.47 per pound.

- Achieve the expanded design capacity of 220 million pounds of copper at Cerro Colorado, a year earlier than originally planned.

- Operate Alumbrera at design capacity over the full year (Rio Algom's projected share of production: 100 million pounds of copper and 160,000 ounces of gold).

- Complete arrangements for US$1.26 billion of project financing at Antamina and advance the project on schedule and on budget.

- Complete pre-feasibility work and finalize plans for a full feasibility study at Spence.

- Achieve a return on capital employed of 15% or more from the metals distribution business.

- Ensure all operations and projects are operated safely and in full environmental compliance.

LETTER

to shareholders

Strong Progress in a Tough Year

For the mining and metals distribution industries in general, 1998 was a difficult year. Metal prices were low; in the copper sector, prices were at their lowest levels in more than a decade.

Rio Algom remained profitable, and performed well against most of its objectives. Copper production was increased by 50% and cash costs were lowered by 16%, to an average of US$0.51 per pound. The company also advanced its development projects; further expanded its metals distribution business; and continued its focus on low-cost production as a primary vehicle for growing the company and improving its competitive position. In a weak price environment, the importance of strong operating efficiency and low-cost production cannot be over-emphasized.

On left, Patrick M. James, President and Chief Executive Officer, with Gordon C. Gray, Chairman of the Board.

Operations improve

In 1998, total copper production increased to 373 million pounds, from 249 million pounds in 1997. Average cash costs dropped by 10 cents to US$0.51 per pound.

At wholly owned Cerro Colorado, improvements were made throughout the operation. Record levels of production were achieved despite the presence of up to 2,000 construction workers during much of the year, and a 67% expansion was completed on schedule during the third quarter.

The Antamina project goes ahead. From left: Norman Keevil, President and C.E.O., Teck Corporation; Patrick James, President and C.E.O., Rio Algom Limited; H.E. Alberto Fujimori, President of the Republic of Peru; David Kerr, President and C.E.O., Noranda Inc.; Augusto Baertl, President, Compania Minera Antamina.

Highland Valley Copper (Rio Algom 33.6%) also performed very well, with production increasing 6%, to 123 million pounds of copper, and cash costs improving by 11%. Regrettably, this strong performance could not overcome the impact of the continuing decline in copper prices. In January 1999, the mine announced that it intends to suspend production, effective May 15, 1999, until global copper prices and/or structural cost reductions allow it to operate profitably on a sustained basis.

The Alumbrera mine (Rio Algom 25%) achieved commercial production in February. While start-up problems are normal at any new operation, the ramp-up at Alumbrera took longer than planned. It is, however, Argentina's first large-scale mining operation, and was developed in a short time-frame for a project of this magnitude. By year-end, the operation had reached or exceeded virtually all of its design goals.

Growth projects advance

Considerable progress was made during the year with two development projects that have the potential to add 500 million pounds of copper to Rio Algom's annual production, at an average cash cost in the low- to mid-US$0.40 per pound range.

The Antamina feasibility study was completed in March, and confirmed the quality of this extraordinary copper-zinc orebody. In mid-year, ownership of the project changed, with Rio Algom retaining a 37.5% interest. The new partners, Noranda Inc. (37.5%) and Teck Corporation (25%), bring financial strength, extensive operating experience and smelting expertise. In September, the three partners announced their decision to proceed with Antamina, including a commitment to invest US$2.5 billion by June 2002 with 30% of any shortfall being paid to Peru in lieu of further expenditures. Project costs, including payments to Peru, are estimated at US$2.26 billion. In November, a conditional commitment letter was accepted from a group of eight commercial banks for approximately half of the US$1.26 billion of project financing being sought. Discussions regarding the balance of the financing are expected to be concluded by mid-1999. Also in November, the Bechtel Group was awarded the Engineering, Procurement and Construction Management contract and, by year end, contracts totaling approximately US$250 million had been awarded for roads, mining equipment, engineering and camp construction.

Antamina is a large undertaking for Rio Algom, one that will require the company to invest US$848 million in debt and equity. It is also one of the best undeveloped copper-zinc orebodies in the world, and a project that should earn solid returns and generate substantial cash flow, beginning in 2002. More information on Antamina is provided on page 40.

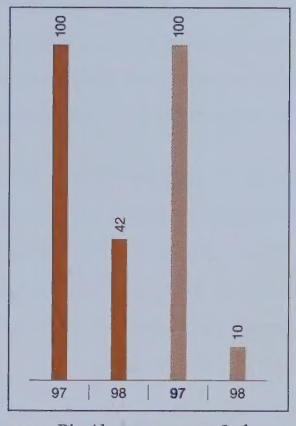
At the Spence deposit in Chile, bulk sampling and metallurgical testing were initiated as part of the pre-feasibility program, to determine the best processing method. Spence represents an ideal situation for Rio Algom. It is well located near ample infrastructure and labour and, being wholly owned, offers the company flexibility in the timing of its development. Rio Algom was pleased that the Prospectors and Developers Association of Canada selected its Chilean exploration team to receive the "Prospector of the Year" Award for 1998 in recognition of the Spence discovery. To Jack McClintock, Mike Thicke, Sig Weidner and Angus Campbell, our thanks and congratulations.

Outperforming the peer group

While Rio Algom's 1998 results were affected by weak copper prices, the company's financial performance held up well in comparison to its peers, primarily because of the contribution of the wholly owned North American Metals Distribution Group. Rio Algom's metals distribution business is consistently profitable, generates significant cash flow and earns attractive rates of return on capital.

NET EARNINGS VERSUS PEERS*

'98 as a percentage of '97



** Includes Asarco, Cominco, Cyprus Amax, Falconbridge, Inco, Noranda, Phelps Dodge and Teck Corp.*

Rio Algom's net earnings in 1998 were $34 million compared to $81 million in 1997 as the favourable impact of higher copper production and lower cash costs was more than offset by a 29% reduction in the average selling price of copper, to US$0.75 per pound. Earnings per common share were $0.31 in 1998, down from $1.19 the previous year.

Revenue for 1998 was $2.0 billion, against $1.8 billion in 1997. The metals distribution business accounted for $1.6 billion or 81% of revenue; its results saw the benefit of the acquisition of Ideal Metal Inc., higher stainless steel and aluminum volumes, and the impact of the weaker Canadian dollar.

Operating profit was $112 million in 1998, versus $198 million the previous year.

Cash flow from operations was $107 million compared to $131 million a year earlier.

Because of the significant decline in copper prices and the company's continuing growth plans, during 1998 the Board of Directors elected to reduce the semi-annual dividend from $0.35 per share to $0.14 per share, resulting in a total payment of $0.49 per share in 1998 compared to $0.70 per share in the previous two years. The Board took the step reluctantly but in the belief that it will ultimately enhance shareholder value, by strengthening Rio Algom's financial position in a period of rapid growth.

The years ahead

Rio Algom's objectives for 1999, outlined on page 4, mark stepping stones towards the company's long-term goal, which is to become one of the world's top-performing base metal mining companies. The company has quality assets and good people. It operates to improve its competitive position and maintain profitability throughout metal price cycles. With its emphasis on expanding low-cost production and prudent financial management, it expects to emerge from the current weak price environment in a strong position, ready to take full advantage of future improvements in copper prices.

While copper markets are not expected to recover quickly from the current doldrums, Rio Algom anticipates a better price environment when the Antamina and Spence projects come on stream. Within five years, Rio Algom expects its annual copper production to more than double, as a result of new production from Antamina and Spence, and higher output from current mines. As production increases, cash costs will come down to the mid-US$0.40 per pound range, well down the global cost curve.

Corporate developments

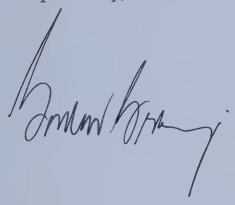
James Perrella, Chairman, President and Chief Executive Officer of Ingersoll-Rand Company, was elected to the Board of Directors in April. Norman E. Smith retired as Chairman and Chief Executive

Officer of the North American Metals Distribution Group (NAMDG) at the end of August. Over a lifetime career, Norman played a major role in building one of the continent's largest distributors of stainless steel and aluminum, and we thank him for his dedication and many contributions. Harrison P. Jones, formerly Chief Operating Officer, was appointed President and Chief Executive Officer of NAMDG.

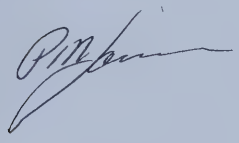
An appreciation

To Rio Algom's employees, the Board extends its thanks for work well done. In a difficult year, the company stayed the course and accomplished much. We look forward to working with all our stakeholders towards the achievement of our goals in the months and years ahead.

Respectfully, on behalf of the Board of Directors,



GORDON C. GRAY
Chairman of the Board

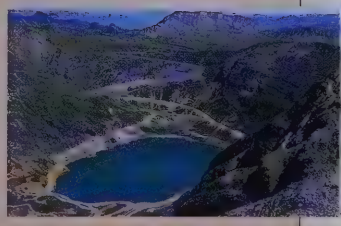


PATRICK M. JAMES
President and Chief Executive Officer
February 15, 1999

ZINC
Polaris
METALLURGICAL COAL
Bullmoose Coal
Vancouver
COPPER
Highland Valley Copper
ZINC
Nicolet Minerals Company
Minneapolis
Toronto
URANIUM
Smith Ranch
COPPER-ZINC
Antamina
Lima
COPPER
Cerro Colorado
COPPER
Spence Deposit
Antofagasta
COPPER-GOLD
Alumbrera
Mendoza
Santiago
Buenos Aires
MINING
★ Mining Properties
✻ Exploration Offices
-Dublin, Ireland office not shown on map
METALS DISTRIBUTION
● North American Metals
Distribution Group

A sound business PLAN

The articles that follow (pages 14 - 26) focus on three key drivers supporting Rio Algom's business plan: increasing low-cost production from mining operations; growing profitable market share in metals distribution; and building a strong record in sustainable development and occupational health and safety.



Growing Down the Cost Curve

Seeking out large-tonnage deposits that will support low-cost production in order to become one of the world's top-performing base metal mining companies.

A Prudent Investment, A Competitive Strength

Buffering the impact of the commodity cycle by generating consistent profits and cash flow.

Good Neighbours; Good Business

A strong record keeps us welcome where we operate and makes us welcome where new opportunities arise.

MINING	LOCATION	INTEREST HELD BY RIO ALGOM	1998 PRODUCTION OR PROJECTED ANNUAL PRODUCTION CAI
Copper Operations			
Cerro Colorado *(copper)*	East of Iquique, Northern Chile	100% owned	165 million pounds of cathode copper 220 million pounds by 1999
Highland Valley Copper *(copper)*	Highland Valley area, British Columbia, Canada	33.6% partnership	123 million pounds of copper in concen 1.8 million pounds of molybdenum in c (Rio Algom's share)
Alumbrera *(copper-gold)*	Northwestern Argentina	25% owned	85 million pounds of copper and 131,00 of gold (Rio Algom's share) 100 million pounds of copper and 160,0 of gold by 1999
Other Mining			
Smith Ranch *(uranium)*	Powder River Basin, Wyoming, United States	100% owned	715,000 pounds of uranium 2 million pounds of uranium as early a
Bullmoose Coal *(metallurgical coal)*	Tumbler Ridge, British Columbia, Canada	29.1% joint venture	520,000 tonnes (Rio Algom's share)
Polaris *(zinc-lead)*	Little Cornwallis Island (N.W.T.), Canadian Arctic	25% royalty interest	140,000 tonnes of zinc in concentrate an 38,000 tonnes of lead in concentrate
Development Projects			
Antamina *(copper-zinc)*	Central Peru	37.5% interest	225 million pounds of copper and 135 m pounds of zinc by 2002 (Rio Algom's share)
Spence deposit *(copper)*	Northeast of Antofagasta, Northern Chile	100% owned	300 million pounds of copper as early a
Nicolet Minerals Company *(zinc)*	Crandon, Wisconsin United States	100% owned	
Exploration			
Rio Algom Exploration Inc. (for offices and subsidiaries see page 87)		100% owned	

METALS DISTRIBUTION	LOCATION	INTEREST HELD BY RIO ALGOM	1998 SALES
North American Metals Distribution Group Service Centres: Atlas Alloys Inc./Ideal Metal Inc. Vincent Metal Goods/Lockhart	Headquarters: Minneapolis, Minnesota 16 in Canada 43 in United States	100% owned	Combined sales were $1.6 billion

	RESERVES	RESOURCES
	204 million tonnes grading 1.02% copper	
nd rate	417 million tonnes grading 0.418% copper and 0.009% molybdenum	51 million tonnes grading 0.426% copper and 0.006% molybdenum
nces	644 million tonnes grading 0.51% copper and 0.62 grams per tonne gold	
	25 million pounds of uranium	29 million pounds of uranium
	Sufficient to satisfy contractual obligations	
	2.9 million tonnes grading 12.8% zinc and 3.3% lead	
n	494 million tonnes averaging 1.3% copper, 1.0% zinc, 12 grams per tonne silver and 0.03% molybdenum	
03		In-pit resource of 306 million tonnes grading 1.1% copper
		55 million tons comprising 30 million tons grading 9.8% zinc and 0.4% copper, and 25 million tons grading 0.96% zinc and 1.71% copper
	ACTIVITIES	
	Warehousing, processing, distribution of a wide variety of metal products for industrial use. Principal processing activities include custom blanking, polishing, sawing, slitting and shearing	

GROWING DOWN

the Cost Curve

Rio Algom's strategy for building shareholder value is based on high growth, low costs and prudent financial management.

Top: Preparing a heap leach pad at Cerro Colorado, which increased copper production by 24% in 1998. Bottom: The Antamina feasibility study was completed in March.

Whatever the prevailing prices for its products, Rio Algom expects to work constantly to lower costs and improve its competitiveness. Its avenues for growth include seeking out large tonnage projects that will support low unit-cost production in order to achieve its goal of becoming one of the world's top-performing base metal mining companies.

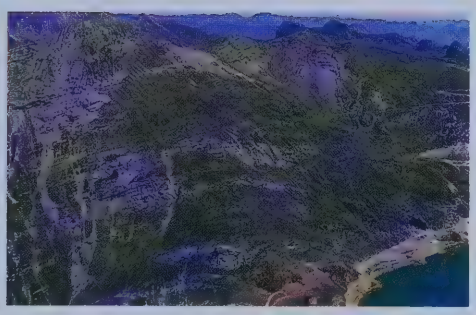
Cash costs lowered 16%

In 1998, one of Rio Algom's key objectives was to cut cash costs by 10%. That target was exceeded. Average cash costs were reduced by 16% to US$0.51 per pound of copper from US$0.61 per pound a year earlier. At Cerro Colorado, cash costs declined by 8%, while at Highland Valley Copper cash costs were down 11%.

Copper production up 50%

Total copper production increased by 50% over 1997 to 373 million pounds.

Major advances were made at wholly owned Cerro Colorado, where production increased 24% and a 67% expansion was completed on schedule in the third quarter of 1998 (see pages



On left: Cerro Colorado's expanded electrowinning plant at dusk. Centre and right: The Antamina property, located in the Peruvian Andes at an elevation of about 4,300 metres, is scheduled to begin production in 2002.

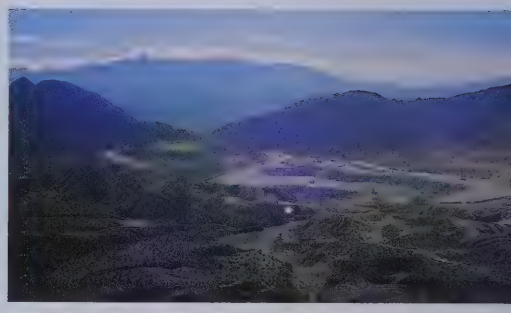
28 and 36). One of the first operations to put the bacterial leaching solvent extraction/electrowinning (SX/EW) process into successful commercial production, Cerro began production in 1994. Through experimentation, innovation and experience, the almost entirely Chilean workforce has improved this operation continually. Recoveries, for example, have increased from 60% in 1995 to 76% in 1998 and are expected to exceed 80% in 1999.

TOTAL COPPER PRODUCTION INCREASED BY 50% FROM 1997

Highland Valley Copper increased copper production by 6% in 1998. This copper-molybdenum mine (Rio Algom has a 33.6% partnership interest) has been one of the most efficient operations in the world, of necessity, given that its grade averages about 0.4% copper.

Among many improvements made in 1998, daily mill throughput increased to 134,000 tonnes per day, compared to 123,000 tonnes per day in 1997. Unfortunately, even these efforts have been unable to counteract the decline in world copper prices, and the mine intends to suspend operations for economic reasons on May 15, 1999.

Alumbrera reached commercial rates of production in February 1998. The mine progressed towards its design rates of performance throughout the year. By the end of 1998, mill throughput was exceeding the



On left: Coarse ore pile at Cerro Colorado. On right: The Alumbrera mine in Argentina reached commercial production in February.

target of 80,000 tonnes per day, and copper and gold recoveries were in line with expectations. Rio Algom's 25% share of production for the year amounted to 85 million pounds of copper and 131,000 ounces of gold (see pages 29 and 37).

Production growth in hand

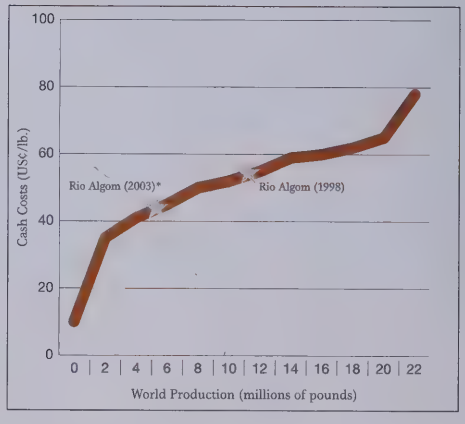
In 1999, Rio Algom expects to produce 365 million pounds of copper. The 67% Cerro Colorado expansion completed in mid-1998 is scheduled to reach full capacity. Alumbrera, also expected to operate at its full design capacity during 1999, will contribute an average of 100 million pounds of copper and 160,000 ounces of gold to the company's production profile annually. Highland Valley Copper is scheduled to contribute 45 million pounds of copper before the expected suspension of production in May.

After Antamina comes on stream in 2002, the company's annual production is scheduled to increase by 225 million pounds of copper, and 135 million pounds of zinc. Spence has the potential to add a further 300 million pounds of copper per year, more than doubling the current levels of production.

Cash costs to drop further

Rio Algom's new mining projects will move the company sharply down the global cost curve for copper production. When development is completed, average cash costs per pound, including applicable byproduct credits, are forecast as follows: Antamina – approximately US$0.35; Alumbrera – US$0.40; Cerro Colorado and Spence – approximately US$0.50. Overall,

WORLD COPPER CASH-COST CURVE
YEAR 2000



** Projected*

COPPER MARKETS

Review of 1998

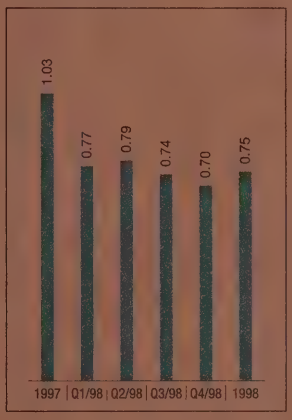
The most significant factor influencing Rio Algom's profitability is the price of copper. The company's earnings sensitivity to copper prices is discussed on page 46.

Copper markets in 1998 were affected by economic and currency problems in Asia, which accounts for about one-third of Western World copper consumption, and strong production growth. Consumption in Asia fell by 10% in 1998, which largely offset growth of 7% in Western Europe and 5% in North America. As a result, total consumption grew by only 1.3%, down from 3.6% in 1997.

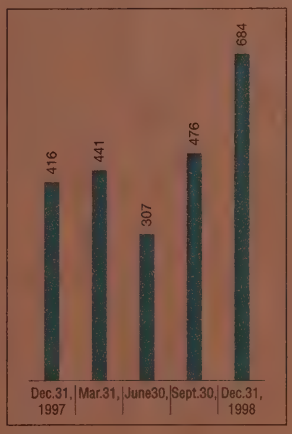
Western World production increased by 3.4%, as the addition of about 1.0 million tonnes of new capacity more than offset the removal of some 400,000 tonnes through attrition and closures, the latter largely reflecting the impact of low copper prices on existing mines.

Total Western World supply of 13.6 million tonnes in 1998 exceeded total consumption of 13.2 million tonnes resulting in a surplus of about 450,000 tonnes for the year. Exchange-traded copper stocks increased from 416,000 tonnes at the end of 1997 to 684,000 tonnes at December 31, 1998. The average LME spot price was US$0.75 cents versus US$1.03 per pound in 1997.

LME SPOT COPPER PRICE
US$/lb. (quarterly and annual averages for 1998)



EXCHANGE-TRADED* COPPER STOCKS
Thousands of tonnes (at end of period)



** Includes LME and Comex (source: CRU International Ltd.)*

Outlook for 1999

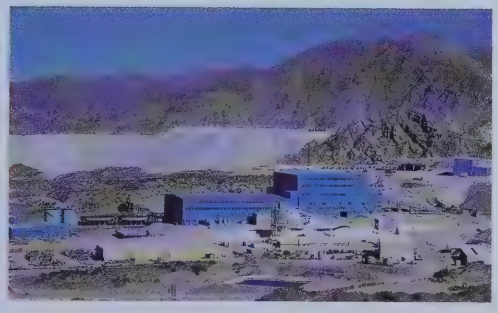
Consumption in 1999 is expected to increase in the range of 2.4%, as stronger demand from Asia offsets lower consumption growth in Europe and North America. Supply growth is forecast at about 4.9%, which includes higher Western World production, as new capacity again more than offsets production cutbacks and attrition, and increased net exports from China and the former Eastern Bloc countries.

A surplus in the range of 400,000 tonnes is expected, which should once again lead to weak price conditions.

A Longer-term Perspective

Since 1965, copper production costs have shown a declining trend, fueled by new technology which has dramatically improved extraction methods and the development of higher grade orebodies. Not surprisingly, prices have also declined, although they have only fallen below US$1.00 per pound (in 1997 dollar terms) on a few occasions over this period, and have never done so on a sustained basis.

The factors driving current low prices may persist for two to three years, but the market is expected to rebalance itself as demand in Asia and other emerging markets recovers and production growth moderates. Based on this outlook, Rio Algom believes that a real price of US$0.95 per pound (in 1997 terms) is reasonable and prudent for the purpose of making long-term investment decisions.



On left: Bulk sampling at the Spence deposit in Chile. In centre: Jorge Avalos, Electrowinning Foreman, Pedro Campino, President of Compania Minera Cerro Colorado Limitada, Cesar Otarola, Vice-President, Operations, Francisco Costabal, Vice-President Marketing and Administration, and Albert Blanchette, Controller, in the control room at the Cerro Colorado mine. On right: Alumbrera's mill was exceeding its design capacity of 80,000 tonnes per day by the end of 1998.

cash costs will be in the mid-US$0.40 per pound range, about 10% less than 1998 levels, placing the company well below the mid-point of the global cost curve.

Long-life reserves

Large tonnage deposits make for long-life mines and stability in mine and corporate planning. Current proven and probable reserves are expected to support operations at planned mining rates for at least the next 17 years at Cerro Colorado; for 19 years at Alumbrera; and for 20 years at Antamina. The current resource at Spence is expected to support a mining operation for about 20 years. Given appropriate economic conditions, Highland Valley Copper has sufficient reserves remaining for approximately nine years of additional production.

Seeking new opportunities

With the project pipeline well supplied, the company continues to look for new exploration and development opportunities.

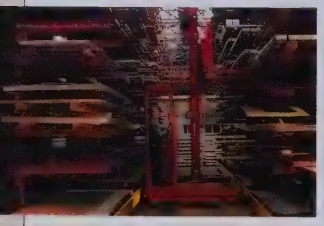
Nicolet Minerals Company was formed early in 1998 to permit, develop and operate a wholly owned zinc-copper project near Crandon, Wisconsin, USA, which has the potential to produce approximately 330 million pounds of zinc in concentrate annually. The formation of Nicolet followed the acquisition of 100% of the deposit in January 1998. Previously, Rio Algom had held a 50% interest through a partnership with Exxon Coal and Minerals.

The Spence deposit, estimated at 306 million tonnes with a grade of 1.1% copper, demonstrates the success of the company's focused and consistent exploration program. In January 1999, Rio Algom learned that its Chilean exploration team had been selected by the Prospectors and Developers Association of Canada to receive the Bill Dennis Prospector of the Year Award for 1998 in recognition of the Spence discovery. With an exploration budget of about $15 million annually, Rio Algom is looking for large tonnage, low-cost deposits, primarily of copper and zinc, in areas that have demonstrated their potential for quality orebodies.

PRUDENT INVESTMENT

COMPETITIVE STRENGTH

In 1998, while others were retrenching, Rio Algom outperformed its mining peers in net earnings and advanced its growth plans.



Value-added processing activities, such as cutting to length, slitting and polishing, are an important contributor to profitability at metals distribution service centres such as the Ambridge, Pennsylvania, facility (above), one of Vincent Metal Goods' key centres in the U.S.

How? A major factor was the performance of the company's wholly owned metals distribution business.

The North American Metals Distribution Group (NAMDG) buffers the impact of swings in the commodity cycle by generating consistent profits and cash flow. It also earns attractive rates of return and has significant prospects for growth through industry consolidation and potential expansion of market share.

The metals distribution business had a solid year in 1998 despite weak prices for stainless steel and aluminum. It generated revenue of $1.6 billion and operating profit of $67 million, or 81% of Rio Algom's total revenue and 60% of total operating profit, and recorded a 14% pre-tax rate of return on capital employed (see page 43).

The metals distribution industry is a highly competitive, rapidly consolidating business. Size and scale of operation are crucial, since they provide important leverage with suppliers, spread overhead and establish credibility in supplying large, geographically

METALS DISTRIBUTION MARKETS

Metals distribution companies in North America purchase stainless steel, aluminum, carbon steel and other metals from producing mills. They then hold them in inventory and provide processing services such as cutting to length, slitting, burning and polishing, before selling the products to customers in the manufacturing, transportation, construction and food-services industries.

Volumes are very much driven by general North American economic conditions. Prices are determined based on the supply-demand balance of the various metals. Supply is provided both from domestic and foreign mills.

Metals distribution is a diverse industry with participants ranging from large multinational corporations to privately owned, single-unit operations. It is also highly dispersed with the top 10 participants accounting for only about one-third of the industry's US$40 billion in annual sales. The North American Metals Distribution Group, including the acquired operations of Ideal Metal Inc., ranked among the top 10 distributors on the continent based on 1998 sales.

Review of 1998

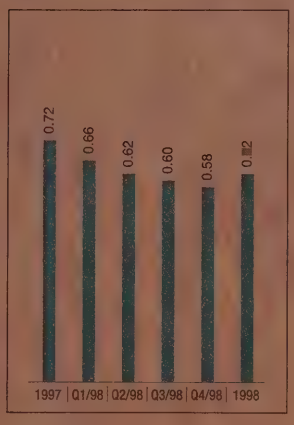
Volume growth remained strong in 1998, fueled by real GDP growth of 2.9% and 3.7% in Canada and the United States, respectively. However, the key factors affecting results during the year were sharply lower prices for many metals, particularly stainless steel and aluminum. Stainless steel prices were hampered by over-capacity worldwide, exacerbated by the decline in economic conditions in Asia. This led to a surge in imports into the United States, further increasing price pressures.

Industry prices for Type 304 stainless sheet – the industry benchmark – averaged US$0.91 per pound in 1998, down 6% from US$0.97 per pound in 1997. LME spot aluminum prices declined 14%, to US$0.62 per pound, reflecting swelling capacity and strong growth in total industry stocks due to higher production in the United States, Russia and other countries. On a global basis, consumption showed little or no growth, with slumping demand in Japan, South Korea and other Asian countries the main factor.

STAINLESS STEEL PRICES*
US$/lb.

** Average price for stainless sheet Type 304*
(source: Purchasing Magazine)

ALUMINUM PRICES*
US$/lb.



** Average LME price*
(source: Commonwealth Aluminum)

Outlook for 1999

With real GDP growth in Canada and the United States expected to be in the ranges of 2.3% and 2.5% respectively in 1999, volume growth is not likely to exceed 1998 levels. Stainless steel prices are expected to stabilize and possibly show some improvement in 1999. Prices will likely be supported by anti-dumping duties on stainless steel entering the United States. The duties were announced by the US Department of Commerce in December, following the 1998 filing of numerous unfair trade complaints by domestic producers. As global stocks continue to build, aluminum prices are not expected to improve significantly in 1999. Much will depend on demand as Asian countries continue to work through their economic difficulties, and growth in the rest of the world shows signs of moderating.

A Longer-term Perspective

Over the last five years, Rio Algom's metals distribution business has generated an average return on capital employed of about 19% and an operating margin of 5.2%. While current levels are below these averages, as economies in Asia and elsewhere recover, and stainless steel imports into the US slow, Rio Algom expects its metals distribution business to again approach these levels of performance.

diverse customers. Because of this, the position of Rio Algom's metals distribution group as one of the largest in North America is an important strength.

NAMDG operates 59 service centres across North America, serving more than 50,000 customers through Vincent Metal Goods in the United States and Atlas Alloys in Canada. In May 1998, its position was enhanced by the acquisition of Ideal Metal Inc. of Montreal, a major distributor of aluminum, for $77 million (including debt assumed). This acquisition added four service centres in Canada and three in the US.

Two key trends – outsourcing and "just-in-time" delivery – are currently transforming the metals distribution industry. The metals distribution group has taken steps to benefit from them. As mills and customers look to outsource more of their processing needs, NAMDG has expanded its value-added capabilities, such as cutting to length, slitting, burning and polishing, which provide attractive margins as well as important competitive advantage. It has introduced sophisticated management information systems to control inventory, and maintains service centres near its customers, allowing a large percentage of orders to be filled within one or two days.

In managing for success, the metals distribution business pays careful attention to profitability, margins, costs, inventory turnover, receivables and, most importantly, return on capital employed (ROCE). Managers are primarily evaluated and compensated according to ROCE, thereby ensuring that capital, mainly in the form of inventory, is

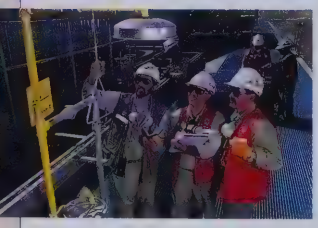
Harrison Jones, NAMDG President and Chief Executive Officer, inspects a new cut-to-length line at the Ambridge service centre in Pennsylvania with Manager Roger Dickhans.

managed efficiently. It is a system that has proved effective in developing management quality, which has allowed NAMDG to fill most senior management positions from within the organization.

In August 1998, Norman E. Smith, NAMDG's Chairman and Chief Executive Officer, retired from the organization after leading the Group through a period of significant growth and prosperity. At the same time, Harrison (Harry) P. Jones, formerly Chief Operating Officer of NAMDG, was appointed President and Chief Executive Officer, while Michael Goldberg was promoted to the position of Executive Vice-President and Chief Operating Officer of NAMDG after having served most recently as President of Atlas Alloys. Sam E. Hanna, formerly Vice-President of Vincent Metal Goods' Western Division, was appointed President of NAMDG's Canadian operations.

GOOD Neighbours GOOD Business

For Rio Algom, sustainable development means working toward common economic, social and environmental goals for the long-term benefit of all stakeholders.



Top: The flags of Canada and Chile fly side by side at Cerro Colorado, depicting the international cooperation that has resulted in a successful mining operation. Bottom: Members of the Cerro Colorado Environment, Health and Safety committee inspect one of the safety showers.

Rio Algom has committed itself to being a leader in the areas of environment, health and safety.

The company's actions are guided by an Environment, Health and Safety (EHS) policy and a Statement on Community Responsibility. To implement its policy, the company continues to develop its EHS management system, which includes standards and procedures based on years of its own experience and the collective knowledge of industry and expert consultants.

Operating in a sustainable manner for Rio Algom also includes involving people who will be affected by the company's projects and cooperating to achieve common economic, social and environmental goals.

An example of Rio Algom's efforts can be found at the Antamina project in Peru, where much of the recent progress is the result of the leadership role the company has taken. Dozens of meetings have been held with local communities, non-governmental organizations and regional and national government agencies, to determine stakeholders' needs and to ensure proper integration of the project with local and national objectives.

Rio Algom's activities include support for a flamingo study near Cerro Colorado; employment training opportunities for local residents with special needs; transplanting vegetation as the Cerro Colorado pit expands; and, through CMA, health and education assistance near the Antamina property.

Because of Antamina's proximity to the Huascaran National Park, a working group has been established to monitor the project's use of park roads and environmental effects. It is chaired by Peru's National Institute of Natural Resources (INRENA) and includes representatives of the project, the World Conservation Union and the US-based Mountain Institute. The World Heritage Committee, a UNESCO agency, has cited Antamina as a model for building practical guidelines on mining near protected areas.

Communicating with local groups and other interested parties is also an ongoing process for Nicolet Minerals Company. Nicolet, wholly owned by Rio Algom, was formed to develop the Crandon zinc-copper deposit in Wisconsin, USA, after Rio Algom increased its interest in the deposit from 50% to 100% early in 1998. After spending considerable time listening to different groups, and learning of community concerns about local water levels, treated water discharge and long-term acid drainage, Nicolet made a number of substantial and innovative

As part of a village outreach program, Nurse Jorge Concha from the Cerro Colorado operation makes regular visits to local communities to provide health advice (left) and occasional food parcels (centre). On right, one of several petroglyphs on display in a cactus garden at the Cerro Colorado mine.

engineering changes to improve the design of the project.

THE WORLD HERITAGE COMMITTEE CITED ANTAMINA AS A MODEL FOR RECONCILING ENVIRONMENT AND DEVELOPMENT NEEDS

Through its community involvement, Rio Algom determined in 1998 that it should focus on supporting sustainable, improvements in education, community development and health. The company also adopted the Imagine Program guidelines, and committed to donate 1% of pre-tax profit to support charitable enterprises.

Rio Algom is a participant in a number of collaborative research projects. These include university-based research into water covers and the effects of dissolved organics on metal toxicity in fish, and government studies of aspects of the milling process and the effects of weathering on mine rock and tailings. The company is a founding member of the new International Network on Acid Prevention.

Rio Algom also works hard at its health and safety results. The average lost-time accident frequency rate among full-time employees at Rio Algom's operations in 1998 was 0.71 accidents per 200,000 working hours, compared to 0.92 accidents per 200,000 working hours in 1997. The Ontario mining industry average is approximately 1.4 accidents per 200,000 working hours.

To encourage and recognize excellence in health and safety at its operations, Rio Algom developed the President's Award in 1998. It will be presented for the first time in 1999.

1998

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BEGINNING *to* END

Rio Algom uses two distinct methods to extract copper: the heap leach, solvent-extraction/electrowinning (SX/EW) process and the more traditional milling and flotation method. The choice of method is determined based on the characteristics of the orebodies. (Technical terms are defined in the glossary on page 86.)

Cerro Colorado

Using the heap leach, SX/EW process, crushed oxide and sulphide ore is piled in giant heap-leach pads, each about eight metres high and half a square kilometre in area. The pads are irrigated with a weak sulphuric acid solution which dissolves (leaches) copper contained in the oxide ore. Copper in the sulphide ore is concurrently dissolved through bacterial leaching. The copper, now in a copper sulphate solution, is collected and pumped to a solvent extraction plant where it is recovered using an organic solvent. It is then treated in the electrowinning plant where electric currents are used to plate the copper onto cathodes. The resulting cathode copper is more than 99.99% pure. All the acid solutions and solvents used in the process are recycled in a continuous loop.

CERRO COLORADO – OPERATING AND FINANCIAL REVIEW

C$ millions	1998	1997
Total material mined (millions of tonnes)	44.7	21.6
Total ore mined (millions of tonnes)	7.2	5.5
Strip ratio(1)	5.2	2.9
Ore to leach pads (millions of tonnes)	7.4	5.6
Ore unloaded from pads (millions of tonnes)	3.5	4.9
Average grade(2)	1.37%	1.52%
Average recovery(3)	76%	76%
Total production (millions of pounds)	165	133
Total sales (millions of pounds)	165	132
Average selling price (US$ per pound)	0.75	1.05
Net revenue	179	186
Cost of operations	106	85
Depreciation & amortization	33	19
Operating profit	40	82

(1) Ratio of waste rock moved per tonne of ore
(2) Percentage of valuable metal or mineral in rock
(3) Percentage of copper in ore which is recovered (at Cerro Colorado, it is measured by comparing the change in grade from the time ore is loaded onto leach pads to the time it is removed)

Alumbrera and Highland Valley Copper

Alumbrera and Highland Valley Copper both use traditional milling and flotation methods. Ore is mined and crushed before being sent to large grinding mills, where water is added and the material is further reduced in size. The resulting pulp is streamed into large tanks called flotation cells, which are used to separate copper and other minerals from waste. Air and chemical reagents are injected into the cells, and the minerals are carried to the surface by bubbles and skimmed off: hence the term flotation. Waste material, called tailings, sinks to the bottom and is pumped to an impoundment area. The copper-containing slurry is then thickened and dried into concentrate, which is sold to smelters for refinement into finished copper.

Rio Algom's share	Highland Valley Copper (33.6% owned)		Alumbrera[1] [2] (25% owned)
C$ millions	1998	1997	1998
Copper			
Total material mined (millions of tonnes)	33.1	31.0	18.3
Total ore mined (millions of tonnes)	16.4	15.1	11.3
Strip ratio[3]	1.0	1.1	0.6
Total ore milled (millions of tonnes)	16.4	15.1	6.4
Average copper grade[4]	0.39	0.39	0.73
Average recovery[5]	90%	92%	82%
Total production[6] (millions of pounds)	123	116	85
Total concentrate produced[7]	147	132	140
Byproducts			
Gold (thousands of ounces)	-	-	131.0[8]
Molybdenum (millions of pounds)	1.8	1.5	-
Silver (millions of ounces)	0.7	0.6	-
Total copper sales (millions of pounds)	125	113	83
Average selling price (US$ per pound)	0.74	1.06	0.77
Net revenue	103	135	-
Cost of operations	86	84	-
Depreciation & amortization	20	19	-
Operating profit	(3)	32	-
Equity loss			(5)

(1) As Rio Algom accounts for its investment in Alumbrera using the equity method, the company records its share of Alumbrera's earnings and losses on its income statement, but does not include the mine's results in revenue or operating profit

(2) Commercial production was attained on February 1, 1998

(3) Ratio of waste rock removed per tonne of ore

(4) Percentage of valuable metal or mineral in rock

(5) Percentage of copper in ore which is recovered

(6) Production from Highland Valley Copper is recorded net of amounts retained by smelters under terms of smelting and refining contracts

(7) In thousands of dry metric tonnes

(8) Average head grade of gold was 0.89 grams per tonne of ore, while gold recoveries averaged 71%

Cash Profile

GOALS:

Generating healthy cash flow from operations and maintaining a strong cash position are important to financing growth projects and meeting other obligations.

MEASURES:

Key measures of performance include levels of operating cash flow and cash available in relation to expenditures, repayment obligations and investment opportunities.

TABLE 1. FACTORS AFFECTING CASH POSITION IN 1998

C$ millions	1998	1997
Cash, beginning of year*	144	216
Cash from operations	107	131
Cash from new financings		
Preferred securities	219	-
Convertible debenture instalment	176	163
Common shares	1	148
Repayment from associated company	14	78
Cash paid to shareholders/lenders		
Dividends		
Common	(30)	(43)
Preferred securities	(5)	-
Accretion on convertible debentures	(11)	-
Repayment of debt/other obligations	(7)	(208)
Investment in associated companies	(9)	(86)
Capital expenditures	(444)	(255)
Cash, end of year*	155	144

** Net of current bank loans and overdrafts*

Reduced cash flow reflects sharply lower copper prices

Net cash and short-term investments were $155 million at December 31, 1998 compared to $144 million at the end of 1997 (see Table 1). Cash flow components are detailed in the Consolidated Statements of Cash Flow on page 55.

Sources of Cash

Cash flow from continuing operations was $77 million compared to $131 million in 1997. The main factor contributing to the decrease was a $47 million reduction in earnings, primarily due to lower copper prices.

Also contributing to cash flow in 1998 was $30 million from discontinued operations.

Cash flow from Cerro Colorado and the company's share of Highland Valley Copper fell $109 million as higher production and lower costs were more than offset by a reduction of US$0.30 per pound or 29% in the average selling price of copper, to US$0.75 per pound (see page 35). Cash flow from other mining rose $25 million due largely to a sharp increase in uranium sales. Production at Rio Algom Mining Corp. rose to 947,000 pounds of uranium from 262,000 pounds a year ago with production from Smith Ranch reaching 715,000 pounds following the

TABLE 2. OPERATING CASH FLOW BY SEGMENT*

C$ millions	1998	1997
Cerro Colorado	59	117
Highland Valley Copper	10	61
Other mining	33	8
Metals distribution	28	29
Corporate, development and exploration	(53)	(84)
Continuing operations	77	131
Discontinued operations	30	-
Total	107	131

** Earnings before deduction of non-cash expenses, adjusted for changes in non-cash working capital*

attainment of commercial production in December 1997. Metals distribution generated $28 million of operating cash flow, similar to the 1997 level despite significantly lower stainless steel and aluminum prices (see page 42).

Cash from financings included net proceeds of US$145 million (C$219 million) from the issuance of preferred securities in August 1998, and $176 million from the second and final instalment of convertible subordinated debentures issued in 1997. In 1997, the company received net proceeds of $308 million, including $163 million from the first instalment of convertible debentures and $144 million from the issuance of 4.4 million common shares (see page 67).

Uses of Cash

The main uses of cash in 1998 were capital expenditures of $444 million, up from $255 million in 1997. Contributing to growth capital of $401 million in 1998 were: $198 million for a 67% expansion of Cerro Colorado, which was completed during the year's third quarter; $77 million for the acquisition of metals distributor Ideal Metal Inc. (including debt assumed); $45 million related to engineering and geo-technical work, pre-stripping and road construction at Antamina; and $42 million related to Nicolet Minerals Company, including US$17.5 million (C$26 million) to acquire 100% of a zinc-copper deposit near Crandon, Wisconsin (see page 61). Sustaining and replacement capital in 1998 was $43 million, similar to the 1997 level of $48 million (see below).

Common share dividend payments totaled $30 million in 1998 versus $43 million in 1997. The change from a year ago reflected a reduction in the semi-annual dividend declared during the third quarter, to $0.14 per share from $0.35 per share. Additional dividends of $5 million (after income taxes) related to the US-dollar preferred securities issued in August (see page 68).

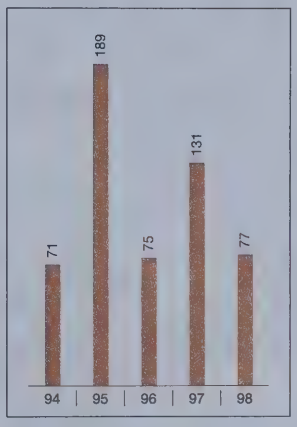
TABLE 3. GROWTH CAPITAL

C$ millions	1998	1997
Cerro Colorado (copper)	198	122
Metals distribution	77	-
Antamina (copper-zinc)	45	31
Nicolet (zinc-copper)	42	6
RAMC* (uranium)	27	28
Spence (copper)	12	20
Total	401	207

**Rio Algom Mining Corp.*

OPERATING CASH FLOW*

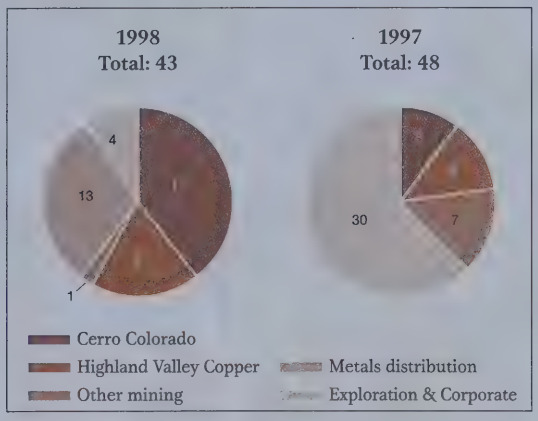
C$ millions



**From continuing operations*

SUSTAINING AND REPLACEMENT CAPITAL*

C$ millions



**Net of disposals*

Profitability

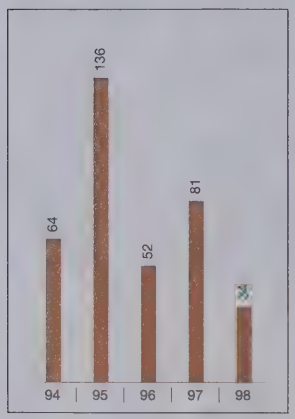
GOALS:

Growing earnings over the economic cycle is one of Rio Algom's key strategies for building shareholder value. Drivers of mining profitability are prices, sales and cash costs. In metals distribution, profitability is influenced by sales volumes, prices and margins.

MEASURES:

Net earnings, earnings per share and operating profit for business segments are important measures of profitability.

NET EARNINGS FROM CONTINUING OPERATIONS
C$ millions



Solid profit from metals distribution and production and cost improvements from mining offset by weak commodity prices

As shown in Table 4, net earnings in 1998 were $34 million, down 58% from the comparable 1997 level. The main factor contributing to lower earnings was a significant reduction in copper prices. Operating profit from metals distribution was similar to the 1997 level as results from the acquired operations of Ideal Metal Inc. and higher volumes from existing operations largely offset the impact of lower stainless steel and aluminum prices.

Exploration expenses were reduced by $11 million due to lower expenditures at the Spence deposit in Chile. Higher corporate expenses reflected increased costs in support of the company's extensive growth program.

TABLE 4. NET EARNINGS

C$ millions	1998	1997
Cerro Colorado	40	82
Highland Valley Copper	(3)	32
Other mining	8	12
Metals distribution	67	72
Total operating profit	112	198
Corporate	(34)	(29)
Exploration	(15)	(26)
Earnings before interest and taxes	63	143
Interest expense	(23)	(26)
Investment and other income	25	24
Income and mining taxes	(26)	(60)
Equity in net losses of Alumbrera	(5)	-
Net income	34	81
Accretion	(11)	(9)
Preferred dividends	(5)	-
Net income available to common shareholders	18	72
Earnings per common share	$0.31	$ 1.19

A net loss of $5 million was recorded from the company's 25% interest in Alumbrera, which is accounted for using the equity method (see page 37). Alumbrera reached commercial levels of production on February 1, 1998.

Earnings per common share (EPS) were $0.31 in 1998, down from $1.19 in 1997. In addition to lower earnings, EPS were also reduced by costs related to the company's financings, including $5 million of dividends on preferred securities issued in August 1998 and higher accretion related to the equity component of convertible debentures (see Retained Earnings on page 53). The weighted average number of common shares rose in 1998, to 60.6 million from 60.1 million in 1997, reflecting the full-year impact of 4.4 million common shares issued in February 1997.

Impact of Financings on EPS

Table 5 below is intended to assist readers in understanding the impact of the company's capital structure on EPS. For more information on these securities, please see the following: Note 12 to the financial statements on page 66 for information on the 7.05% US$150 million debentures; Note 14 to the financial statements on page 67 for the 5.5% $353 million convertible debentures; and Note 15 to the financial statements on page 68 for the 9 3/8% US$150 million preferred securities.

TABLE 5. EFFECT OF CAPITAL STRUCTURE ON EARNINGS PER SHARE (EPS)

$ millions	Annual	1998 Income	1998		1998
	Cash	Statement[1]	Retained Earnings		EPS
Financing	Obligation	(Interest)	(Accretion)[2]	(Dividend)[3]	Impact (C$)
US$150 million 7.05% debentures (due Nov. 1, 2005)	US$11	C$16 (pre-tax) C$10 (after tax)			(0.16)
C$353.4 million 5.5% convertible debentures (due Feb. 1, 2007)	C$19	C$3 (pre-tax) C$2 (after tax)	C$16 (pre-tax) C$10 (after tax)		(0.20)
US$150 million 9 3/8% preferred securities (due Sept. 1, 2047)	US$14			C$8 (pre-tax) C$5 (after tax)	(0.08) [4]

(1) Interest expense is quoted on the income statement on a pre-tax basis but is tax affected for the purpose of calculating EPS

(2) Consistent with Canadian accounting standards, the 5.5% convertible debentures are treated as having both an equity and debt component (at December 31, 1998: equity – $293 million, debt – $61 million) given the company's right to redeem these securities through the issuance of common shares. Accretion is recorded in retained earnings, net of taxes, and reduces EPS

(3) Given the company's right to settle the 9 3/8% debentures through the issuance of common shares, these securities are recorded as equity with interest payments included as dividends, net of tax impact, in retained earnings

(4) The amount appearing on the income statement in 1998 was $5 million (after tax) covering the period from August 7 to December 31, 1998. The full-year impact of these securities will include a dividend of approximately C$12 million (net of income taxes) and an earnings per share impact of about $0.20

Revenue

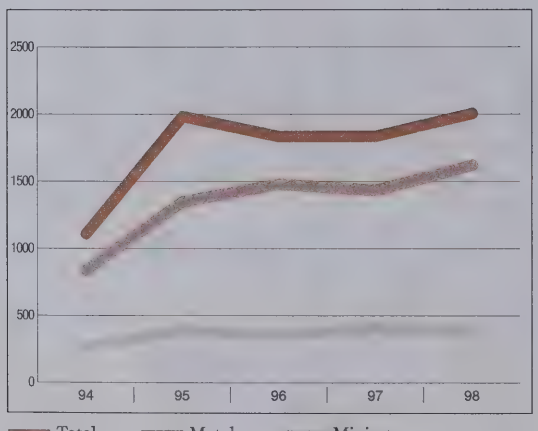
GOALS:

Rio Algom's revenue strategy for mining operations is discussed on page 35, while the strategy for metals distribution is provided on page 42. Two factors influence revenue: sales volumes, which in mining are closely related to production levels, and the average realized price per unit of metal sold, mainly for copper, stainless steel and aluminum.

MEASURES:

Key measures of performance include the change in revenue from year to year, as well as production levels for mining operations and sales volumes for metals distribution.

REVENUE
C$ millions



Strong volume growth across the organization was largely offset by weak prices

Revenue in 1998 totaled $2,004 million, up 9% from the 1997 level of $1,835 million. Revenue from metals distribution rose $188 million or 13% as lower stainless steel and aluminum prices were more than offset by increased volumes, largely reflecting the acquisition of Ideal Metal Inc., and the impact of a weaker Canadian dollar. Revenue from mining operations declined 5% to $384 million, as higher production and sales volumes from most operations could not mitigate the effects of lower copper and zinc prices.

Volumes

Higher volumes had a favourable impact of $263 million compared to 1997. The main contributors to this increase were:

- $160 million from Ideal Metal Inc.;
- $24 million from higher metals distribution volumes (excluding Ideal Metal), including growth of 4% and 5%, respectively, in stainless steel and aluminum sales;
- $49 million from a 16% increase in copper sales from Cerro Colorado and the company's share of Highland Valley Copper; and,
- $30 million from other mining, largely due to higher sales of uranium.

Prices

Prices reduced revenue by $94 million compared to 1997. A $186 million decline due to lower commodity prices was only partially offset by a $102 million increase related to a weaker Canadian dollar (US$0.676 in 1998 versus US$0.725 in 1997). Changes related to lower prices included:

- $109 million from a reduction of US$0.30 per pound, or 29%, in the average selling price of copper at Cerro Colorado and Highland Valley Copper;
- $77 million from metals distribution, largely reflecting reductions of 10% and 4% in the average selling prices of stainless steel and aluminum, respectively;
- $10 million from other mining, mainly due to the impact of lower zinc prices on royalty revenue from Polaris.

Mining Operations

GOALS:

Rio Algom's goal is to enhance the company's revenues, earnings and cash flows by developing long-life mining projects, which will provide sound returns, and by optimizing the performance of current operations.

MEASURES:

Production levels and operating costs per unit of production are key measures of performance. Revenue and operating profit are also important indicators, but they are heavily influenced by changes in base metal prices, which are outside of the company's control.

COPPER PRICES*

LME average spot price (US$/lb.)

** Source: CRU International Ltd.*

Strong operating performances in a year marked by weak prices

Operating profit from mining operations was $45 million in 1998 compared to $126 million a year earlier. Cerro Colorado and the company's share of Highland Valley Copper accounted for $77 million or 95% of the reduction as weaker copper prices more than offset higher production and lower unit costs. Lower zinc prices also contributed to the decline.

Copper Mining

Operating profit declined $77 million or 68% from a year ago (see Table 6 on page 36) due to a sharp reduction in copper prices. Spot copper prices in 1998 reached their lowest annual average since 1986. Weak prices were due to lower consumption growth, reflecting contraction in Asian demand, and increased production, as new capacity more than offset the impact of closures resulting from weak prices or attrition. LME and COMEX copper stocks rose from 416,000 tonnes at the end of 1997 to 684,000 tonnes at year-end 1998. More information on copper markets is provided on pages 17 and 18.

As a means of offsetting risk associated with future price changes, Rio Algom hedges some of its copper sales using put options and collars. In 1998, most of the positions involved the purchase of put options, which provide a guaranteed selling price without diminishing upside potential should copper prices improve. Approximately 43% of 1998 copper sales from Cerro Colorado and the company's share of Highland Valley Copper were hedged with an average strike price for put options of US$0.80 per pound. These positions generated net proceeds of US$6 million (C$9 million). In 1997, put options with an average strike price of US$1.00 per pound covered 29% of copper sales for net proceeds of US$7 million (C$10 million).

Cerro Colorado

Revenue, operating profit and cash flow from Cerro Colorado declined significantly from the comparable levels in 1997 due to lower selling prices of copper. The impact of lower prices was partially offset by a strong operating performance, including growth in production of 32 million pounds or 24%, to 165 million pounds, and a 8% decline in cash costs, to US$0.46 per pound.

Most of the increase in production related to an expansion of the mine and plant which will increase annual production capacity to 220 million pounds from 132 million pounds. The expansion was completed on schedule, during the third quarter, at a cost of US$214 million.

Ore loaded on leach pads increased to 7.4 million tonnes, at an average grade of 1.37%, versus 5.6 million tonnes at a grade of 1.52% in 1997.

Under sales contracts expiring December 31, 2008, Cerro Colorado is committed to deliver a total of 133 million pounds of cathode copper annually. Remaining production, about 90 million pounds in 1999, has been committed under annual and spot contracts. Prices under all contracts are based on average LME spot prices in or around the month of delivery.

Based on current reserves, the expected life of the mine at the expanded capacity is approximately 17 years.

Highland Valley Copper

Rio Algom's share of revenue was $103 million compared to $135 million in 1997. The mine reported an operating loss in 1998, with Rio Algom's share being $3 million, which compared to $32 million of operating profit in 1997. Weaker financial results were due to sharply lower copper prices which were partially offset by a stronger operating performance, lower smelting and refining charges and the impact of a weaker Canadian dollar.

Rio Algom's share of production rose 6%, to 123 million pounds, while average cash costs per pound improved by 11%. Average daily mill throughput at the mine reached a record level of 134,000 tonnes per day, up 9% from 1997. Total throughput for the year was 49.0 million tonnes, up from 44.9 million tonnes in 1997. The increase was due to improved ore fragmentation and grinding techniques. The average grade was 0.39% in 1998, unchanged from a year ago.

TABLE 6. COPPER MINING OPERATIONS

	Cerro Colorado		Highland Valley Copper[1]		Alumbrera[1][2][3]		Total	
C$ millions	**1998**	1997	**1998**	1997	**1998**	1997	**1998**	1997
Revenue	**179**	186	**103**	135	**-**	-	**282**	321
Cost of operations	**106**	85	**86**	84	**-**	-	**192**	169
Depreciation & amortization	**33**	19	**20**	19	**-**	-	**53**	38
Operating profit	**40**	82	**(3)**	32	**-**	-	**37**	114
Equity loss	**-**	-	**-**	-	**(5)**	-	**(5)**	-
Operating cash flow	**59**	117	**10**	61	**-**	-	**69**	178
Total assets	**867**	651	**187**	201	**403**	356	**1,457**	1,208
Net assets	**744**	535	**152**	154	**403**	356	**1,299**	1,045

(1) Rio Algom's share

(2) As Rio Algom accounts for its investment in Alumbrera using the equity method, the company records its share of Alumbrera's earnings and losses on its income statement, but does not include the mine's results in revenue or operating profit

(3) Commercial production was attained on February 1, 1998

Highland Valley Copper has three long-term copper concentrate contracts which in aggregate account for more than 70% of sales. Two of these contracts are held by groups of Japanese smelters which purchase approximately 50% of the mine's production. Prices are based on LME prices, generally three months after delivery. The remaining 30% of sales are mainly sold under annual contracts.

Highland Valley Copper has reserves sufficient to support approximately nine years of additional production.

On January 18, 1999, Highland Valley Copper announced its intention to suspend production at the mine, effective May 15, 1999, until global copper prices and/or structural cost reductions allow it to operate profitably on a sustained basis. The LME spot price of copper was US$0.65 per pound at the time of the announcement. Standby costs during suspension period are expected to average about $7.5 million per quarter (Rio Algom's share: $2.5 million). In 1999, these costs are expected to be met through the realization of concentrate inventory and accounts receivable.

Alumbrera

A $5 million equity loss was recorded from the company's 25% interest in the Alumbrera copper-gold mine in Argentina. The mine, which achieved commercial production on February 1, 1998, broke even on an operating level, with the equity loss resulting from amortization costs related to the company's investment in the project.

Operating results reflected weak copper and gold prices and production levels below the design rate. However, Alumbrera's performance improved during the year and by year end mill throughput was exceeding the design rate of 80,000 tonnes per day, recoveries for copper were approaching the design level of 91% and gold recoveries were exceeding the design rate of 70%. Rio Algom's share of production included 85 million pounds of copper and 131,000 ounces of gold (the company's share of sales was 83 million pounds of copper and 123,000 ozs. of gold). Total ore milled from February 1, 1998 to the end of the year was 25.7 million tonnes, with head grades averaging 0.73% for copper and 0.89 grams per tonne of gold.

Alumbrera has four long-term sales contracts in place, with terms ranging from 8 to 11 years, covering close to 60% of expected annual production. Remaining production will be sold under contracts with terms ranging from 1 to 5 years. Copper prices are based on LME prices averaging about two months following shipment. Prices for gold in concentrate are based on London bullion market prices, generally one month after shipment. Gold from doré is delivered against hedge positions or sold at London bullion market prices immediately upon delivery. All doré production is processed under contract with a US-based refinery. (Approximately 10% of gold production in 1998 was in the form of doré.)

Current reserves are expected to support a mine life of approximately 19 years.

Other Mining

Other mining comprises the US-based uranium operations (Rio Algom Mining Corp.), a 25% royalty interest in the Polaris zinc-lead mine and the contribution from Rio Algom's 29.1% interest in the Bullmoose Coal mine.

Revenue rose 24% from a year ago, while operating profit declined by 33% to $8 million.

The increase in revenue resulted from higher sales of uranium which more than offset the impact of lower zinc prices on the Polaris royalty and lower production and prices at the Bullmoose Coal mine. Total uranium production increased to 947,000 pounds from 262,000 pounds in 1997, with production at Smith Ranch reaching 715,000 pounds in 1998 after commercial

production was attained near the end of 1997. Also contributing to higher revenue from uranium operations was the sale of 1,075,000 pounds of Russian-source material under matched-sale contracts (see the glossary, page 86), up from 557,000 pounds in 1997. The average selling price of uranium, including the average price received for RAMC-produced material and the profit from the sale of Russian uranium, was US$18.29 per pound versus US$17.55 per pound in 1997.

Operating profit declined from the 1997 level as the favourable contribution from higher uranium sales was more than offset by lower royalty income from Polaris due to a reduction in average annual zinc prices of US$0.14 per pound, to US$0.46 per pound.

TABLE 7. OTHER MINING OPERATIONS

C$ millions	1998	1997
Revenue		
Bullmoose Coal	45	50
RAMC[1]	48	15
Polaris royalty	9	17
Total	102	82
Operating profit		
Bullmoose Coal	3	3
RAMC[1]	4	-
Polaris royalty[2]	1	9
Total	8	12
Operating cash flow	33	8
Total assets	268	237
Net assets	205	191

(1) Rio Algom Mining Corp.
(2) Comprises royalty payments from Polaris, net of amortization costs related to the company's investment in the project

Environmental Responsibility

GOALS:

Rio Algom's goal is to prudently manage its environmental obligations in all aspects of its business to achieve full compliance. Effective management in this respect is considered an integral part of the company's daily operations.

MEASURES:

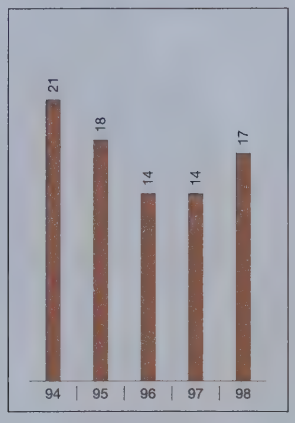
The company regularly reviews its environmental programs and provisions in relation to current environmental laws and policies to ensure ongoing compliance. A full report is provided annually in the company's Environmental Report.

Making sound provisions for future closures and restoration costs

Rio Algom believes that it has made and is making adequate financial provisions for its future restoration obligations. Each operating mine has a plan, reviewed annually, which estimates the cost to rehabilitate the site and protect the environment and public health and safety at the end of the mine's life. The cost of implementing this plan is charged against annual earnings over the life of the operation.

In 1998, the company recorded $4 million in provisions for the future restoration costs at operating mines, unchanged from the 1997 level. Actual spending against previous provisions in 1998 was $17 million, up from $14 million in 1997. The increase mainly related to the beginning of restoration work at the Poirier mine site in Quebec, following approval of the company's plan for the site by the Quebec government. Poirier was a zinc-copper mine which closed in 1975. Additional work at Elliot Lake and costs associated with the company's US-based uranium mining operations also contributed to restoration spending in 1998.

RESTORATION SPENDING
C$ millions



Exploration & Development

GOALS:

Rio Algom's exploration and development program is focused on large-tonnage, base-metal deposits that will support low-cost production. Bringing new projects into production is essential, both to offset the diminishing value of depleting assets and to grow shareholder value.

MEASURES:

Key measures include program success, performance against schedules and budgets and operating costs compared to feasibility estimates.

Lower exploration expenses reflect completion of exploration spending at Spence in '97

Exploration costs were $15 million in 1998, down from $26 million in 1997 when the company spent $14 million to complete an extensive drilling program at the Spence deposit in Northern Chile. Almost half of all exploration spending during the past year was in South America, primarily Chile, Argentina and Peru. The remainder was in North America, Europe, Turkey and Africa.

Antamina

During 1998, Rio Algom invested $45 million in Antamina versus $31 million in 1997. The company's total investment in the project as at December 31, 1998 was $95 million. Following release of the feasibility study in March 1998, work focused on engineering and geo-technical work, pre-stripping, road construction and financing.

In July, a new ownership structure was concluded through which Rio Algom reduced its interest in the project from 50% to 37.5%, with Noranda Inc. and Teck Corporation holding 37.5% and 25%, respectively. As part of an earn-in agreement, the company's partners funded the next US$41.4 million of project expenditures, including Rio Algom's share, during the year.

In September, the partners announced their decision to proceed with development of the project. In so doing, they agreed to invest US$2.5 billion by June 6, 2002 or pay 30% of any shortfall to the Peruvian government in lieu of further expenditures.

In November, a conditional commitment letter was accepted from a group of eight commercial banks for US$600 million or approximately half of the US$1.26 billion in project financing being sought for Antamina. These commitments have a termination date of February 28, 1999. Negotiations to extend them are

underway, however, there can be no assurance that these extensions will be obtained. In addition, negotiations with an international group of import and export-credit agencies were continuing at year end and are targeted for completion by mid-1999.

Also in November, changes to the feasibility study were announced, including the decision to transport concentrate via pipeline, instead of by truck as first envisioned. This change is expected to reduce cash costs, to an average of US$0.35 per pound over the life of the mine and result in a total financing requirement of US$2.26 billion (including shortfall payments). An updated feasibility study was issued in January 1999.

Spence

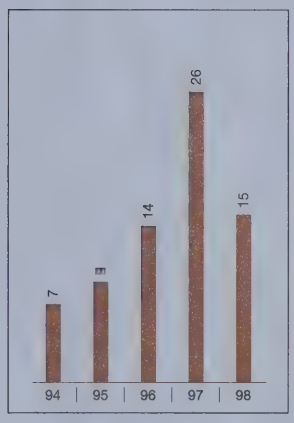
With the commencement of pre-feasibility work in the first quarter of 1998, Spence progressed from the exploration phase and became a development project. Capital expenditures were $12 million in 1998, mainly reflecting bulk sampling in order to conduct metallurgical testing. Pre-feasibility work is expected to be completed in 1999 and will be followed by a full feasibility study.

In 1997, exploration spending at Spence was $14 million related to an extensive drilling program totaling some 100,000 metres and 341 drill holes. Capital expenditures of $20 million were recorded mainly for the acquisition of water rights.

Nicolet Minerals Company

Capital expenditures were $42 million in 1998. Of this amount, $26 million related to the acquisition of 100% of the Crandon zinc-copper deposit in January 1998. Previously, the deposit had been held in a 50:50 partnership with Exxon Coal and Minerals. Of the remaining expenditures, most related to re-engineering of the project following an active program of public consultation, and other permitting-related activities.

EXPLORATION SPENDING
C$ millions



Metals Distribution

GOALS:

Metals distribution provides an attractive rate of return and adds a degree of stability to the company's revenues, earnings and cash flows. The business' goal is to expand profitable market share while effectively managing inventories and costs.

MEASURES:

Performance is assessed based on revenue and operating profit, as well as sales volumes, margins, operating cash flow and return on capital employed.

OPERATING PROFIT
C$ millions

** Includes results for Metal Goods, acquired in 1995*
*** Includes results for Ideal Metal Inc., acquired in 1998*

Volume growth offset by lower prices

Metals distribution results in 1998 were significantly influenced by the acquisition of Ideal Metal Inc. on May 13, 1998 for $64 million (plus $13 million in debt). Ideal Metal contributed $160 million of revenue and $5 million of operating profit between the time of its acquisition and the end of 1998.

Operating profit was $67 million in 1998 compared to $72 million in 1997 as higher volumes, mainly reflecting the addition of Ideal Metal, were more than offset by lower stainless steel and aluminum prices (see Table 8).

Revenue in 1998 was $1,620 million, up $188 million or 13% from the prior year. The increase resulted from a $184 million favourable impact from volumes, including the addition of Ideal Metal and growth of 4% and 5%, respectively, in stainless steel and aluminum volumes from existing operations.

Lower prices served to reduce revenue by $77 million reflecting decreases of 10% and 4% in the average selling prices of stainless steel and aluminum, respectively. Lower stainless steel prices largely resulted from excess supply both from increased domestic capacity and surging imports into the United States, particularly from Asia. More information on metals distribution markets and prices is provided on pages 21 and 22.

Contributing $81 million of revenue, and $4 million of operating profit, was the impact of a weaker Canadian dollar, with an average exchange rate of US$0.676 in 1998 compared to US$0.725 in 1997.

Aluminum sales contributed 38% of the metals distribution business' total revenue in 1998, up from 30% in 1997. The increase mainly reflected the addition of Ideal Metal Inc., which is primarily an aluminum distributor. Stainless steel sales accounted for 36% of revenue in 1998, versus 41% in 1997, while

carbon steel represented 8% of revenue, unchanged from a year ago.

Excluding Ideal Metal, operating expenses were $169 million, up 2% from $165 million in 1997. The operating margin (operating profit as a percentage of revenue) declined to 4.1% from 5.0% the previous year. The decrease was primarily due to lower stainless steel and aluminum prices.

Return on capital employed was 14% in 1998 compared to 19% the prior year. The decrease was due to two factors: lower stainless steel and aluminum prices and the investment of capital for the acquisition of Ideal Metal Inc.

Replacement and sustaining capital in 1998 was $13 million, up from $7 million in 1997 due mainly to the acquisition of previously-leased service centres and the installation of new processing equipment.

At December 31, 1998, no customer accounted for more than 2% of total metals distribution revenue.

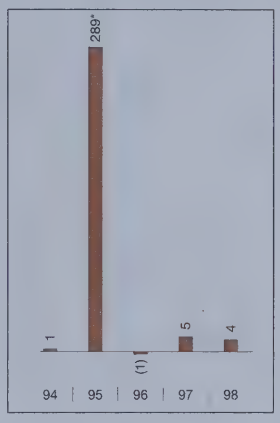
TABLE 8. METALS DISTRIBUTION

C$ millions	1998	1997
Revenue	1,620	1,432
Cost of goods sold	1,349	1,186
Operating expenses	191	165
Depreciation and amortization	13	9
Operating profit	67	72
Operating cash flow	28	29
Total assets	669	552
Net assets	460	397
Operating margin*	4.1	5.0
% contribution to revenue		
Aluminum	38	30
Stainless steel	36	41
Carbon steel	8	8
Other	18	21

** Operating profit as a percentage of revenue*

STAINLESS STEEL VOLUMES

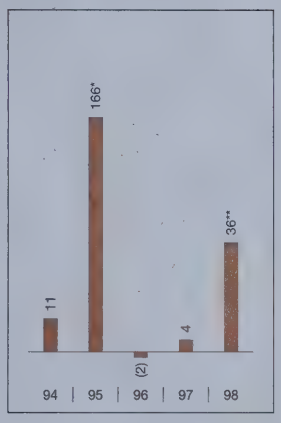
% change in sales volumes



** Reflects acquisition of Metal Goods in 1995*

ALUMINUM VOLUMES

% change in sales volumes

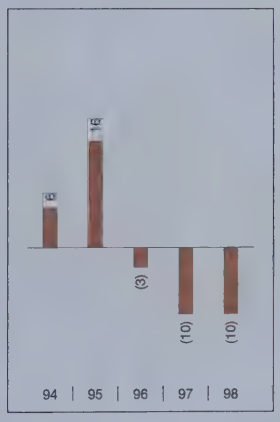


** Reflects acquisition of Metal Goods in 1995*

*** Reflects acquisition of Ideal Metal Inc. in 1998*

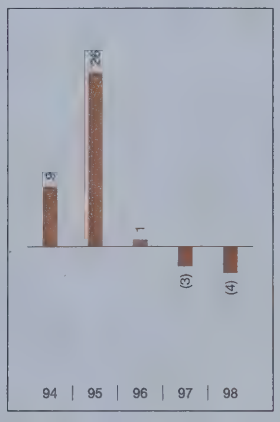
STAINLESS STEEL PRICES

% change in average selling price



ALUMINUM PRICES

% change in average selling price



Liquidity & Capital Resources

GOALS:

Rio Algom's goal is to maintain sufficient liquidity to meet its obligations and preserve financial flexibility as it moves forward with its growth program.

MEASURES:

Key measures of liquidity and financial position include the company's cash position, the current ratio and the ratio of debt to the total of debt plus equity.

Sound financial footing key factor supporting growth

Cash and short term investments, net of current bank loans and overdrafts, were $155 million at December 31, 1998 versus $144 million at the end of 1997. Cash flow from operations was $107 million in 1998, including $30 million from discontinued operations, versus $131 million the previous year. The company's cash profile is reviewed on page 30, and its Consolidated Statements of Cash Flow are provided on page 55.

At December 31, 1998, common equity was $1,434 million, up from $1,354 million a year earlier. The increase mainly related to a higher balance in the company's cumulative translation adjustment ($158 million versus $67 million at December 31, 1997) due to a weaker Canadian dollar in 1998 with the exchange rate averaging US$0.676 versus US$0.725 the prior year. As a result of the weaker dollar, the company's net investment in foreign operations, which use the US dollar as their operating currency, was translated into Canadian dollars at a higher rate in 1998.

Other components of the company's capital structure included: $353 million of 10-year, 5.5% convertible debentures (see Note 14 to the financial statements on page 67); US$150 million of 49-year, 9 3/8% preferred securities (see Note 15 to the financial statements on page

SUMMARY OF RECENT FINANCING INITIATIVES

- 1994 – $180 million of common shares and warrants (warrants exercised in 1996 for $88 million)
- 1995 – US$150 of 7.05% subordinated debentures
- 1997 – US$500 million line of credit
- 1997 – $500 million underwritten credit facility including $147 million from the issuance of 4.4 million common shares and $353 million of 5.5% convertible debentures (received in two instalments, one in 1997 and one in 1998)
- 1997 – 25% participation in a US$670 million project financing for Alumbrera
- 1998 – US$150 million of 9 3/8% preferred securities

TABLE 9. CREDIT RATINGS

	Standard & Poor's	Moodys Investor Services
US$150 million 7.05% debentures	BBB-	Baa3
$500 million credit facility	BBB-	Baa3
$353 million 5.5% convertible debentures	BB+	Ba2
US$150 million 9 3/8% preferred securities	BB+	Ba2
Outlook	Negative	Stable

68); and US$150 million of 10-year, 7.05% debentures (see Note 12 to the financial statements on page 66).

To ensure flexibility as it moves through its growth program, the company has a five-year, US$500 million revolving term facility, which was negotiated in 1997 with an international banking syndicate. In 1998, the facility was extended for one further year consistent with the terms of the lending agreement. The facility is unsecured and contains debt to total capitalization, minimum tangible net worth and negative pledge covenants. Pricing of the credit facility is dependent upon the credit rating of Rio Algom's senior unsecured debt.

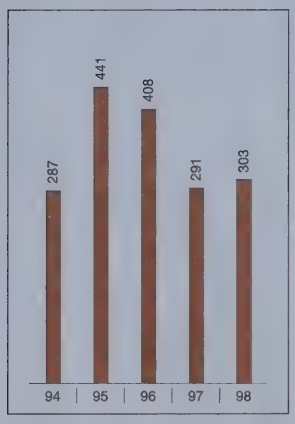
The current ratio at December 31, 1998 was 2.2:1 compared to 2.7:1 at the end of 1997. The reduction from a year ago mainly reflected lower receivables, which at the end of 1997 had included $176 million for the second instalment of convertible debentures (received in February 1998). The company's percentage of debt to the total of debt plus equity at December 31, 1998 was 13% compared to 15% at year-end 1997.

In addition to the above-mentioned obligations, the company has provided a several guarantee for US$156 million, representing 25% of the US$622 million of project financing outstanding related to Alumbrera. Under the financing agreement, this debt will become non-recourse to the project sponsors following the satisfaction of a number of operating and financial completion tests.

The company's capital requirements are expected to increase over the next several years as it progresses with development of projects such as Antamina and Spence. In 1999, the company's capital expenditures are expected to be about $350 million, with Antamina to account for approximately three quarters, or $230 million, of this amount. Replacement and sustaining capital should be similar to the 1998 level of $43 million.

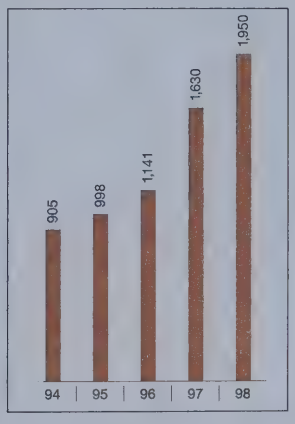
Capital commitments will be met through a combination of existing cash balances, operating cash flow, project financing and other forms of financing as deemed appropriate.

LONG-TERM DEBT*
at December 31 (C$ millions)



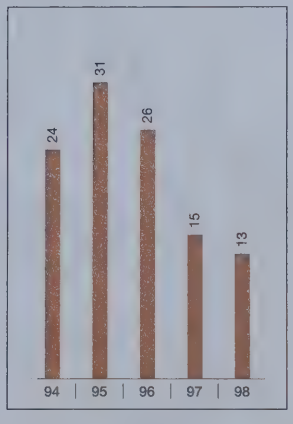
**Includes long-term debt quoted on the balance sheet, mainly the subordinated debentures, plus the debt component of the convertible debentures ($61 million at December 31, 1998)*

EQUITY*
at December 31 (C$ millions)



**Includes common equity ($1,434 million at December 31, 1998), the equity component of convertible debentures (1997 and 1998 only) and the US$150 million of preferred securities (1998 only)*

DEBT TO DEBT PLUS EQUITY
at December 31 (%)



Risks & Uncertainties

Commodity Price Risk

The price of copper is the most significant factor influencing the profitability of Rio Algom. In 1998, the company's average selling price of copper fell US$0.30 per pound, or 29%, to US$0.75 per pound. Earnings sensitivity to changes in copper prices in 1999 will increase somewhat from the 1998 level.

To offset price risk in its copper operations, Rio Algom hedges a portion of its expected annual sales. The company's hedge positions, which for the most part are established by purchasing put options, are summarized in Table 10. Alumbrera's copper hedge positions are recorded at the project level and consist primarily of forward sales.

Gold production at Alumbrera is also hedged. Approximately 30% of anticipated 1999 and year 2000 sales are hedged using forward sales contracts with an average price of $340 an ounce in both years.

TABLE 10. COPPER HEDGE POSITIONS

US$/lb.	1999	2000
Rio Algom		
% of sales hedged	35%	14%
Average strike price	0.73	0.70
Alumbrera		
% of sales hedged	10%	-
Average strike price	0.81	
Total		
% of sales hedged	29%	11%
Average strike price	0.74	0.70

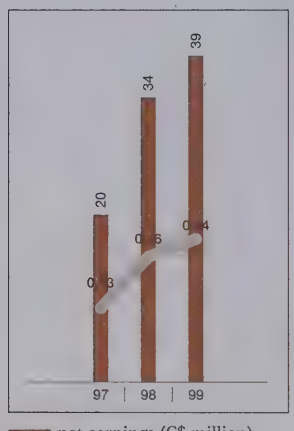
Another facet of commodity price risk involves the potential for prices to decline to sufficiently low levels that the company decides to cease production at existing operations or cancel or postpone the development of mining projects. Should this occur, the carrying value of affected assets may require adjustment.

Metals Distribution Risk

Changing operating margins in the metals distribution business can also have a significant impact on Rio Algom's profitability. In 1998, the margin declined to 4.1% from 5.0% the previous year mainly due to lower stainless steel and aluminum prices (see pages 42-43). Given growth in the business during the last year, largely due to the acquisition of Ideal Metal Inc. in May 1998, the company's sensitivity to changing margins in this business is expected to increase in 1999.

COPPER PRICE

Impact of a US$0.10 per lb. change in copper price



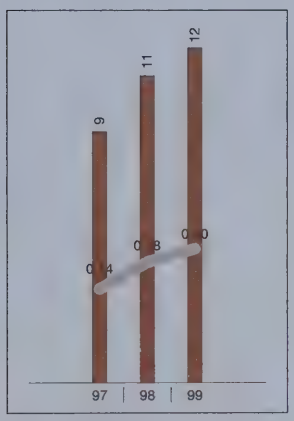
Currency Risk

Because selling prices for copper are quoted in US dollars, and the metals distribution business is predominantly located in the US, a large proportion of the company's operations are conducted in US dollars. As a result, changes in the exchange rate between the Canadian and US dollar can have an effect on the company's revenue and profitability. The sensitivity of net earnings to changing Cdn/US exchange rates in 1999 is expected to be approximately $1 million for a one cent change.

In 1998, Rio Algom entered into foreign exchange contracts involving approximately $90 million per year over five years. The average exchange rate on the contracts when established was US$0.70. Contracts settling in 1998 resulted in realized losses of $3 million during the year. Also, based on market conditions at December 31, 1998, unrealized losses on contracts covering the period 1999-2002 were $24 million.

METALS MARGIN

Impact of 1% change in the operating margin



Mining Risk and Insurance

The business of mining for metals is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground failures, changes in the regulatory environment, delays in the permitting and licensing of new projects and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Although the company maintains insurance against risks that are typical in the mining industry, such insurance may not provide adequate coverage under all unforeseen circumstances.

Political and Financial Market Risks

Adverse political and economic developments can affect the performance of an investment. While project financing arrangements may contain exclusions for certain political risks, including those covered by political risk insurance taken out by the relevant bank syndicate, the company's equity investment in these projects is not covered.

Rio Algom requires capital to pursue its growth program. While the quality of development projects is a primary factor when attempting to obtain financing, access to financial markets can be affected by changing economic and political conditions globally, as well as in the countries in which development opportunities arise.

Development Risk

Development projects, such as Antamina, Spence and the Crandon deposit in Wisconsin, have no operating history upon which to base estimates of future operating requirements. Particularly for development projects, estimates of mineral reserves are to a large

extent based upon the interpretation of geological data obtained from drill holes and other sampling techniques. Estimates involving metal recoveries and capital and operating costs are based upon feasibility studies which assess anticipated tonnage and grades of ore to be mined and processed, the configuration of the orebody, facility and equipment requirements, environmental and reclamation activities and other factors. As a result, actual cash operating costs and economic returns of any and all development projects may materially differ from the costs and returns as estimated in feasibility studies.

In particular, Antamina represents a significant risk for the company, given the physical challenges associated with the project, including high altitude, mountainous terrain and lack of nearby infrastructure, as well as the large financial commitment, with Rio Algom's share of project costs expected to be approximately US$848 million.

Project-specific Risk

Each of the company's operations and development projects are subject to specific risks. Among these risks are those summarized below.

Alumbrera

The potential that the mine will not satisfy the necessary completion tests required for the US$622 million of project financing to become non-recourse to the project's sponsors. Should these tests not be met under the terms of the loan agreement, accelerated repayment of the project debt, of which Rio has provided a several guarantee for US$156 million, could be required over a two-year period.

Bullmoose Coal

The potential that the mine may not be viable under its sales contracts, which provide that prices following March 1999 will be based on prevailing world market prices.

The Bullmoose Coal mine is dependent on another mining project, the Quintette mine, to share rail and port services. Without the volumes provided from both operations, the provision of such services in the area could be rendered uneconomical and be discontinued.

Highland Valley Copper

On January 18, 1999, Highland Valley Copper announced its intention to suspend production, effective May 15, 1999, until global copper prices and/or structural cost reductions permit it to operate profitably on a sustained basis. Given the expected temporary nature of the closure, no adjustment to the carrying value of the operation has been made. However, should the closure remain in effect for an extended period, such an adjustment could be required.

Nicolet Minerals Company

The potential for the permitting process to affect the viability of Nicolet Minerals Company.

Year 2000 Readiness

The Year 2000 (Y2000) risk involves the potential for the company's operations to be disrupted by the failure of computer systems, many of which express years by two digits rather than by four, and which assume that the first two digits are always "19". These systems, if not modified or replaced, could, among other things, misinterpret the year 2000 as 1900 or some other date (e.g., read "00" as the year 1900 rather than the year 2000). The results could range from miscalculations, inappropriate dates and unintended loss of data, to system failure causing an inability to engage in normal business activities.

The Year 2000 issue presents a risk and a challenge to the company because computer systems are used in its mining and metals distribution operations and by its customers, suppliers and service providers. Computer systems are critical to the operation of a mine. Typical applications include software to monitor the operating process and embedded process logic control hardware and software. The metals distribution service centres' business systems operate from a central mainframe computer system. Typical operating applications include equipment with limited computer logic to more advanced machinery with some date references.

Program

To address this issue, the company has undertaken a systematic Y2000 program at its head office and each of its controlled operations with the objective of ensuring that all critical systems will continue to work smoothly both before and after December 31, 1999. Similar programs are in place at all partnerships and joint ventures in which the company holds an interest.

The Y2000 program implemented by the company includes the following:

- Y2000 readiness verification of all purchased software including operating systems.
- Review of all in-house written computer application codes.
- Review of critical equipment containing embedded microchips and processes.
- Modification or replacement of any non-compliant code or system to meet Y2000 standards.
- Testing of systems, where required.
- Working with customers, as well as key suppliers and service providers to ascertain their state of readiness and resolve issues.
- Development of contingency plans where key suppliers and service providers cannot provide adequate comfort with respect to their state of readiness.
- Contingency planning guidelines were issued in 1998 to all of the company's controlled business units which require the preparation of contingency plans for critical dependencies with a Y2000 readiness concern. These plans will be reviewed for appropriateness in the first half of 1999.
- Review by the company's internal auditors of readiness at all controlled operations.
- Review by external consultants of the Y2000 program at controlled operations on a quarterly basis.
- Quarterly reports to the Board by management on the status of its Y2000 program.

Status

The status of Y2000 readiness programs for computer systems at the company's operations is as follows:

As at December 31, 1998, controlled mining operations have made significant progress in modifying and

upgrading important computer systems for Y2000 issues. Testing of new systems is planned for the first quarter of 1999.

The company's US metals distribution operations have completed and tested internal systems and are considered Y2000 ready. Its Canadian metals distribution business has upgraded its existing business systems to be Y2000 ready, however, these upgrades have not yet been tested for Y2000 readiness in favour of devoting resources to integrating all business systems with the US operations' computer system which is Y2000 ready. Completion of the integration and testing of the Canadian and US business systems and Y2000 readiness is planned for the third quarter of 1999.

All significant corporate office systems have been modified and upgraded as appropriate. Testing is planned for the second quarter of 1999.

The majority of the company's non-controlled joint ventures and partnerships are well advanced with their Y2000 programs. There have been no significant issues identified by these entities. At Minera Alumbrera, an active Y2000 program has been in place since 1998. This program has completed the inventory assessment process and did not identify any significant process system issues. They did determine, however, that their business systems were not Y2000 ready. These systems are being upgraded and the target for completion is the third quarter of 1999.

Other Issues

The company's vulnerability to the Y2000 risk is also significantly affected by the readiness of customers, suppliers, service providers and partners. Steps have been taken to seek confirmation of readiness related to these third parties. Such effort will be an ongoing process as the Year 2000 approaches.

Each business unit in the company has the responsibility for addressing the technology and business risks, including those related to its customers, suppliers and service providers, with respect to the Y2000 issue for its respective area of responsibility. At each unit, a program management office has the responsibility to monitor progress against plans in dealing with Y2000 issues and provides monthly status reports to senior management.

At December 31, 1998, total expenditures related to the company's Y2000 readiness program, including the company's share in non-controlled operations, were estimated at $5 million by the time the program is completed. The majority of this cost relates to system improvements which are being capitalized.

The company expects that all of its controlled operations will be Y2000 ready on a timely basis. However, there can be no assurance that the company or its key customers, suppliers, service providers and partners will be Y2000 ready. While the company expects to have appropriate contingency plans for such an event, the company's business, financial condition, or operations could be adversely affected by the failure of the company or any of its key customers, suppliers, service providers or partners to be Y2000 ready.

Outlook

Price of copper will be a key variable in 1999

Results in 1999 will be significantly influenced by copper prices, which are outside of Rio Algom's control. The LME spot price of copper ended 1998 at US$0.66 per pound, the lowest level in more than a decade. Copper prices are expected to remain weak in 1999.

Other key expectations included in the 1999 business plan relate mainly to copper production and cash costs, uranium production, metals distribution margins and volumes and capital expenditures. These expectations are summarized below.

Copper production: Copper production in 1999 is expected to be 365 million pounds, comprising 220 million pounds from Cerro Colorado, which is expected to reach its new expanded design capacity in 1999, a year ahead of schedule, 100 million pounds from Alumbrera, which is accounted for using the equity method, and about 45 million pounds from Highland Valley Copper reflecting the mine's intention to suspend production as of May 15, 1999.

Copper cash costs: Average cash costs are expected to decline to US$0.47 per pound from US$0.51 per pound in 1998. Cash costs at Cerro Colorado should be similar to the 1998 level of US$0.46 per pound. Alumbrera, which reports copper cash costs net of gold credits, should see these costs decline to below the expected life-of-mine average of US$0.40 per pound, as it benefits from a full year of design production.

Other mining: Production at Smith Ranch is expected to reach 1.5 million pounds of uranium in 1999, up from 715,000 pounds in 1998. The 1.5 million pound mark represents the amount of uranium covered under existing contracts which have effective selling prices well above the spot price.

Metals distribution: The North American Metals Distribution Group's operating margins in 1999 are expected to be similar to the 1998 level of 4.1% as stainless steel prices stabilize and the Group's cost performance remains strong. The Group expects double-digit growth in aluminum volumes, fueled largely by a full-year impact of Ideal Metal Inc., which was acquired in May 1998. Growth in stainless steel volumes will depend largely on general economic conditions in North America.

Capital expenditures: Rio Algom is forecasting capital expenditures in 1999 of approximately $350 million compared to $444 million in 1998 as the impact of lower expenditures related to Cerro Colorado and the metals distribution business are only partially offset by higher expenditures for Antamina in 1999 (about $230 million versus $45 million in 1998).

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Some of the disclosures included in the 1998 annual report respecting production, cash costs, expenses and development schedules and budgets represent forward-looking statements (as defined in the US Securities Exchange Act of 1934). Such statements are based on assumptions and estimates related to future economic and market conditions. While the reasonableness of such assumptions and estimates is reviewed by management, unusual or unanticipated events may occur which render them inaccurate. Under such circumstances, future performances may differ materially from projections.

MANAGEMENT'S REPORT

Management is responsible for preparation of the consolidated financial statements and the information contained throughout this report. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include amounts that are based on informed judgements and best estimates. Other financial information appearing throughout this report is consistent with that in the consolidated financial statements.

Rio Algom Limited maintains systems of internal controls over the financial reporting process, designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors, through an Audit Committee composed of five non-management directors, oversees management's performance of its financial reporting responsibilities. The Board reviews and approves the financial statements.

The Audit Committee, appointed by the Board of Directors, meets periodically with management, internal auditors and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the financial statements and recommends them to the Board for approval. The Committee also considers, for review by the Board and approval by the shareholders, the appointment of the external auditors.

PricewaterhouseCoopers, the company's external auditors, have audited the consolidated financial statements, in accordance with generally accepted auditing standards on behalf of the shareholders. They have full and free access to the Audit Committee.

President and Chief Executive Officer

Vice-President and Chief Financial Officer

February 15, 1999

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Rio Algom Limited as at December 31, 1998 and 1997 and the consolidated statements of earnings and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and its cash flow for the years then ended in accordance with accounting principles generally accepted in Canada.

PricewaterhouseCoopers LLP

Toronto, Canada
February 15, 1999

CHARTERED ACCOUNTANTS

Years ended December 31, 1998 and 1997

EARNINGS

(in millions of Canadian dollars except per share data)	1998	1997
Revenue		
Revenue from mine production and sale of metal products	$2,004	$ 1,835
Expenses		
Cost of mine production and metal sales	1,609	1,391
Selling, general and administration	232	212
Depreciation and amortization (note 21)	85	63
Interest (note 22)	23	26
Exploration	15	26
	1,964	1,718
	40	117
Investment and other income	25	24
Earnings before taxes and equity in net losses of associated company	65	141
Income and mining taxes (note 23)	(26)	(60)
Equity in net losses of associated company (note 9)	(5)	-
Net earnings for the year	$ 34	$ 81
Accretion of equity element of convertible debentures (note 14)	(11)	(9)
Dividends on preferred securities (note 15)	(5)	-
Income attributable to the common shareholders	$ 18	$ 72
Net earnings per common share (note 16)		
Basic	$ 0.31	$ 1.19
Fully diluted	$ 0.31	$ 1.17

RETAINED EARNINGS

(in millions of Canadian dollars)	1998	1997
Balance, beginning of year	$ 759	$ 730
Net earnings for the year	34	81
	793	811
Accretion of equity element of convertible debentures	(11)	(9)
Dividends on preferred securities	(5)	-
Dividends on common shares	(30)	(43)
Balance, end of year	$ 747	$ 759

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

December 31, 1998 and 1997

(in millions of Canadian dollars)	1998	1997
Assets		
Current		
Cash and short term investments	$ 175	$ 148
Receivables and prepaid expenses (note 9)	316	286
Debenture instalment receivable (note 14)	-	176
Inventories (note 6)	440	364
Discontinued operations (note 3)	-	17
	931	991
Property, plant and equipment (note 7)	869	515
Construction in progress	5	134
Mining properties (note 8)	602	465
Investment (note 9)	403	356
Other assets (note 10)	56	30
	$2,866	$ 2,491
Liabilities		
Current		
Bank loans and overdrafts	$ 20	$ 4
Accounts payable and accrued liabilities (note 11)	389	326
Income and mining taxes	4	16
Current portion of liability element of convertible debentures	16	19
	429	365
Long term debt (note 12)	242	215
Liability element of convertible debentures (note 14)	45	56
Site restoration and related obligations (note 11)	70	93
Deferred taxes (note 13)	130	132
	916	861
Shareholders' Equity		
Equity portion of convertible debentures (note 14)	293	276
Preferred securities (note 15)	223	-
Common shares (note 16)	491	490
Contributed surplus	38	38
Cumulative translation adjustment (note 17)	158	67
Retained earnings	747	759
	1,950	1,630
	$2,866	$ 2,491

Commitments and contingencies (note 19)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors:

Director *Director*

Years ended December 31, 1998 and 1997

(in millions of Canadian dollars)	1998	1997
CASH PROVIDED BY (USED IN) THE FOLLOWING:		
Operating Activities		
Net earnings for the year	$ 34	$ 81
Non-cash items:		
Depreciation and amortization	85	63
Deferred taxes	(4)	26
Equity in net losses of associated company	5	-
Site restoration and related obligations	(13)	(10)
Increase in non-cash working capital and other	(30)	(29)
Discontinued operations (note 3)	30	-
	107	131
Financing Activities		
Issue of convertible debentures (note 14)	176	163
Issue of preferred securities (note 15)	219	-
Issue of common shares (note 16)	1	148
Repayments of long term debt and other obligations	(7)	(208)
Accretion of equity element of convertible debentures	(11)	-
Dividends on preferred securities	(5)	-
Dividends on common shares	(30)	(43)
	343	60
Investing Activities		
Repayment from associated company (note 9)	14	78
Investment in associated company (note 9)	(9)	(86)
Acquisitions (note 4)	(77)	-
Net capital expenditures	(367)	(255)
	(439)	(263)
Increase (decrease) in cash and cash equivalents during the year	11	(72)
Cash and cash equivalents, beginning of year	144	216
Cash and cash equivalents, end of year (a)	$ 155	$ 144

(a) Cash and cash equivalents comprise cash and short term investments less current bank loans and overdrafts.

The accompanying notes are an integral part of these consolidated financial statements.

1. ACCOUNTING POLICIES

The consolidated financial statements of Rio Algom Limited (the "company") are prepared in accordance with accounting principles generally accepted in Canada applied on a consistent basis. As described in note 26, these principles differ in certain material respects from principles and practices generally accepted in the United States.

The significant accounting policies followed by the company and its subsidiaries are summarized below.

Nature of Operations

The company is engaged in copper mining and other related mining activities including exploration, development, mining and processing in the United States, Canada, South America, Europe and Africa. The company is also engaged in the metals distribution business in North America.

Basis of Consolidation

The consolidated financial statements include the accounts of the company and all significant subsidiary companies, where more than 50% of the voting shares are owned. All material inter-company balances and transactions are eliminated.

Investments in partnerships and joint ventures are accounted for by the proportionate consolidation method. Under this method, the company includes in its accounts its proportionate share of the assets, liabilities, revenues and expenses. All material inter-company balances and transactions are eliminated.

Investments which are not partnerships and joint ventures but in which the company owns 50% or less of the shares and over which it exercises significant influence are accounted for by the equity method. Under this method, the company includes in its net earnings its share of the net earnings or losses of these associated companies.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to the physical and economic lives and the recoverability of mining assets, mineral reserves, site restoration and related obligations, financial instruments and income taxes. Actual results could differ from those estimates.

Foreign Currency Translation

All of the company's foreign operations are translated using the current rate method. Under this method, all assets and liabilities are translated at the year-end exchange rate and all revenue and expense items are translated at the rate of exchange in effect at the date the transactions are recognized in income. Exchange gains and losses arising from the translation of foreign operations' balance sheets are included in the cumulative translation adjustment component of shareholders' equity. These adjustments are not included in earnings until realized through a reduction in the company's net investment in such operations.

The US dollar denominated debt is accounted for as a hedge of the company's net investment in the United States and accordingly the effects of changes in the foreign exchange rates are charged or credited to the cumulative translation account.

Revenue Recognition and Product Inventories

Mining revenue is recognized at the time of sale. Mining inventories are recorded at the lower of net realizable value and average cost.

Royalty revenue is recognized when earned under the respective agreements.

Metals distribution revenue is recognized when the product is shipped to the customer. Inventories of metals and supplies are valued at the lower of cost and market. Inventory cost is determined on the average cost basis. Market for metals distribution inventories is net realizable value and for supplies is replacement cost.

Hedging Transactions

In order to protect against the impact of declining metal prices, the company periodically enters into option contracts. As well, the company has entered into US dollar forward contracts to hedge the effect of exchange rate changes on future Canadian dollar requirements.

The commodity contracts are matched to anticipated future production while the currency contracts are matched to anticipated future cash requirements. As such, these contracts are accounted for as hedges. Premiums paid, gains and losses and cash flows on these contracts are recognized as a component of the related transaction when the contracts mature.

Depreciation and Amortization

The company charges depreciation and amortization on the following basis:

(i) Mining assets:

Fixed assets are depreciated on the basis of the shorter of physical life (straight-line method) or economic life as estimated for each mining unit (unit of production method). Economic life is adjusted from time to time as conditions warrant.

Mining properties are amortized over the estimated life of the mine on a unit of production method.

(ii) Other fixed assets:

Fixed assets are depreciated using the straight-line method at the following rates:

Buildings	4% per annum
Plant machinery and equipment	6 2/3% per annum

(iii) Goodwill is stated at cost less accumulated amortization. Amortization is provided on a straight-line basis over a period not exceeding twenty years.

Capitalization of Interest

Net interest costs are capitalized during construction or development phases on those projects for which funds have been borrowed; this would normally apply only to major new projects from the beginning of construction or development up to the commencement of commercial operations. In these cases interest earned on project funds during the development and construction period is applied against the interest expense to reduce the amount of interest costs capitalized.

Mining, Exploration and Development Properties

Exploration expenditures are charged to earnings in the year they are incurred except for expenditures on specified properties for which a pre-feasibility assessment has been completed, confirming measured and indicated resources with the potential of being developed into a mine, in which case the expenditures are capitalized.

Mine development costs incurred to maintain current production are included in operating costs. Mine development costs incurred to expand the capacity of operating mines, to develop new orebodies or to develop mine areas substantially in advance of current production are capitalized and charged to operations on a unit of production method related to the mineral reserves position. If it is determined that an investment in capitalized mine development or exploration is not recoverable over the productive life of the property, the unrecoverable portion is charged to earnings in the year such determination is made.

The company reviews and evaluates the recoverability of mining properties on a periodic basis. Estimated future net cash flows, on an undiscounted basis, from each property are calculated using estimated recoverable quantities; estimated future price realizations (considering contracts in place, historical and current prices, price trends and related factors); and operating, capital and reclamation costs. Reductions in the carrying value of mining properties with a corresponding charge to earnings, are recorded to the extent that the estimated future net cash flows are less than the carrying value.

Estimates of future cash flows are subject to risks and uncertainties. It is possible that changes could occur which may affect the recoverability of the carrying value of mining properties.

Capitalized costs associated with projects held for development and under development are not depreciated until commercial production is attained.

Pre-production Costs

Pre-production costs related to major projects are deferred until the facilities achieve commercial operation or are deemed to be uneconomic. These deferred costs are included in mining properties and amortized on a unit of production method over the estimated life of the mine or are written off when the project is determined to be uneconomic.

Site Restoration and Related Obligations

Estimated site restoration and related obligations for each producing mine are charged to earnings over the expected economic life of each mine using the unit of production method. Provisions of a longer term nature are prepared on a discounted basis.

In determining expected costs, recoveries to be made at the time of shutdown are estimated and taken into account. The process of cost estimation is a continuous one, subject to changing laws and regulations, regulatory approvals, technology and other external factors which will be recognized when applicable.

Current expenditures relating to site restoration and related obligations at operating mines are charged to earnings as incurred. Expenditures pertaining to closed mines are charged to the applicable site restoration and related obligations provision.

Income and Mining Taxes

The company follows deferred income tax accounting for timing differences in the recognition of revenues and expenses for income tax and financial reporting purposes. Investment tax credits are recorded using the cost reduction approach when there is reasonable assurance that the credits will be realized; these credits are deferred and amortized to income on the same basis as the related assets.

Pension Costs and Post-retirement Benefits

The company maintains defined benefit pension plans and a defined contribution pension plan.

Pension costs and obligations for the defined benefit plans are determined using the projected benefit method of actuarial valuation prorated on the projected length of employee service. Pension surpluses and deficiencies, experience gains and losses and the effects of changes in plan assumptions are amortized on a straight-line basis over the expected average remaining service life of the relevant employee group. The cumulative difference between amounts expensed or credited to income and funding contributions is recorded on the balance sheet.

Pension costs and obligations under the defined contribution plan represent both the company's core contributions based on a percentage of each participant's pensionable earnings and the company's matching contributions based on a percentage of each participant's elective contributions.

The company provides certain healthcare and life insurance benefits for its retired employees and their dependants. The cost of these benefits is expensed as incurred.

2. CHANGES IN ACCOUNTING POLICIES

(a) Effective January 1, 1998, the company changed its accounting policy for revenue recognition to record copper revenue at the time of sale. Previously, revenue was recorded at the time of production at the estimated sales value. This change substantially reduces the uncertainty of the previous method, and is a preferable method of accounting and makes the company's practices more consistent with its international peer group. In conjunction with the change in revenue recognition, the valuation of copper inventories was changed to the average cost basis. Previously, copper inventories were valued at estimated net realizable value at the time of accumulation.

These changes in accounting policies were applied retroactively and, accordingly, retained earnings were reduced by $2 million at January 1, 1998.

(b) Also effective January 1, 1998, the company changed its accounting policy for inventory valuation at its U.S. metals distribution operations to an average cost basis from the last-in first-out (LIFO) method. This change will reflect the results of the business in a more predictable manner.

This change in accounting policy was applied retroactively, however, the effect of this change on opening 1997 retained earnings offset the change on 1997 earnings and therefore there was no net effect of this change on opening 1998 retained earnings.

(c) The effect of these changes in accounting policies on 1998 net earnings was not material.

(d) The company has restated 1997 comparative figures for the changes in accounting policies referred to in notes (a) and (b) above.

Effect of Changes in Accounting Policies.

(in millions of Canadian dollars)	1998	1997
Opening retained earnings as originally reported	$ 761	$ 730
Adjustments to opening retained earnings:		
Change in revenue recognition policy (a)	(2)	(2)
Change in inventory costing policy (b)	-	2
Adjusted opening retained earnings	759	730
Net earnings for the year as reported	34	83
Adjustments to net earnings:		
Change in revenue recognition policy (a)	-	-
Change in inventory costing policy (b)	-	(2)
	793	811
Accretion of equity element of convertible debentures	(11)	(9)
Dividends on preferred securities	(5)	-
Dividends on common shares	(30)	(43)
Adjusted closing retained earnings	$ 747	$ 759
Basic earnings per share as reported	$ 0.31	$ 1.22
Basic earnings per share as adjusted	$ 0.31	$ 1.19

3. DISCONTINUED OPERATIONS

(a) On June 30, 1996 the Stanleigh underground mine at Elliot Lake, Ontario ceased operations as a result of Ontario Hydro's decision in 1991 to terminate the uranium supply contract. This resulted in the closure of the company's last operating mine in the region. In anticipation of this closure, the Elliot Lake operations were accounted for as discontinued operations in 1995. These operations consisted of the Stanleigh, Quirke and Panel, Pronto, Lacnor, Nordic, Buckles, Spanish American and Milliken underground uranium mines at Elliot Lake.

(b) During the year the company received $30 million from Ontario Hydro pertaining to Ontario Hydro's share of employee severance, pensions and post-employment benefits relating to the closure of the company's Stanleigh mine.

(in millions of Canadian dollars)	1998
Cash received during the year	$ 30
Repayment of prior year receivable	(17)
Income from sale of assets and management fee recognized in other income during the year	(6)
Other	2
Post-employment benefits obligation assumed by the company	$ 9

4. ACQUISITIONS

(a) On January 23, 1998, the company increased its interest in a zinc-copper deposit near Crandon, Wisconsin to 100% and formed a new company, Nicolet Minerals Company, to develop and operate the project. Previously the company had held a 50% interest in the project.

The company paid cash of US $17.5 million on the closing of this transaction, which has been recorded in mining properties. A further US $5 million is payable after the Crandon Project commences commercial production and has been accrued as a liability in the company's accounts. A net profits royalty of between 2 1/4% and 3 3/4%, depending on the zinc price, is also payable.

(b) On May 13, 1998, the company acquired 100% of the common shares of Ideal Metal Inc. a metals distribution company. The total purchase price was $77 million, comprising $64 million in cash and the assumption of a bank loan of $13 million.

The net assets acquired were as follows:

(in millions of Canadian dollars)	May 13, 1998
Current assets	$ 87
Property, plant and equipment	10
Goodwill	30
	127
Liabilities assumed	50
Total acquisition cost	$ 77

5. PARTNERSHIP AND JOINT VENTURES

(a) The company holds a 37.5% interest in Compania Minera Antamina S.A. ("CMA"), a joint-venture with Noranda Inc. ("Noranda") (37.5%) and Teck Corporation ("Teck") (25%). CMA is developing a copper-zinc project in Peru.

In July 1996, as equal participants, the company and Inmet Mining Corporation ("Inmet") were the successful bidders for the Antamina copper-zinc deposit north of Lima, Peru. In July 1998, a new ownership structure for the Antamina project was finalized under which Noranda and Teck each purchased one-half of Inmet's 50% interest in CMA, the Peruvian company established to develop and operate the mine.

Noranda acquired a further 12.5% interest from the company by way of an earn-in on the project. During the earn-in period, which began effective May 8, 1998, Noranda and Teck were responsible for funding 75% and 25% respectively of project expenditures to a total of $61.1 million. After the earn-in was completed, the company and Noranda each own 37.5% and Teck owns 25%. Each shareholder will be responsible for its proportional share of the project's costs, which are currently estimated at US $2.26 billion, including the penalty (note 19).

The total expenditures incurred by the company to December 31, 1998 are $95 million.

(b) The company holds a 33.6% interest in Highland Valley Copper ("HVC"), a partnership with Cominco Ltd. (50%), Teck (11.4%) and Highmont Mining Company (5%). The company and Cominco Ltd. have equal control and management.

HVC holds and operates large-scale copper/molybdenum mining and milling operations in the Highland Valley area of British Columbia to produce copper and molybdenum in concentrates with gold and silver as by-products (note 27).

(c) The company holds a 29.1% interest in Bullmoose, a joint venture with Teck (60.9%) and Nissho Iwai Coal Development (Canada) Ltd. (10%). The project, an open-pit coal mine and processing facility, is located in northeastern British Columbia.

All of the above operations are accounted for using the proportionate consolidation method. The company's share in the assets, liabilities, revenue, expenses and cash flow of the partnership and joint ventures are as follows:

(in millions of Canadian dollars)	1998	1997
Revenue	$ 148	$ 185
Cost of sales	149	150
Operating profit	(1)	35
Income taxes (recoverable) expense	(1)	16
Net earnings	$ -	$ 19
Assets		
Current	$ 73	$ 56
Non-current	270	184
Liabilities		
Current	(65)	(45)
Non-current	(11)	(11)
Net investment	$ 267	$ 184
Cash inflow (outflow) from:		
Operating activities	$ 26	$ 74
Financing activities	(4)	(3)
Investing activities	(53)	(7)
(Decrease) increase in cash	$ (31)	$ 64

6. INVENTORIES

(in millions of Canadian dollars)	1998	1997
Mining operations		
Copper-concentrates and cathode	$ 35	$ 38
Uranium	27	26
Mine supplies and other	29	23
	91	87
Metals distribution operations	349	277
	$ 440	$ 364

7. PROPERTY, PLANT AND EQUIPMENT

(in millions of Canadian dollars)	1998	1997
Buildings, at cost	$ 146	$ 130
Less accumulated depreciation	55	45
	91	85
Plant machinery and equipment, at cost	1,029	624
Less accumulated depreciation	271	210
	758	414
Land, at cost	20	16
	$ 869	$ 515

8. MINING PROPERTIES

(in millions of Canadian dollars)	1998	1997
Mining properties, at cost	$ 766	$ 593
Less accumulated amortization	164	128
	$ 602	$ 465

Included in mining properties are costs associated with the Crandon and Spence projects held for development having a book value of $103 million (1997 – $47 million).

9. INVESTMENT

Investment is carried on an equity basis.

(in millions of Canadian dollars)	Ownership	1998	1997
Minera Alumbrera Limited	25%		
Equity (a)		$ 304	$ 299
Long term shareholder loans (b)		104	57
Equity in net losses		(5)	-
		$ 403	$ 356

(a) Effective May 19, 1995 the company acquired a 25% effective interest in Minera Alumbrera Limited which commenced commercial production of the Bajo de la Alumbrera copper-gold deposit in northwest Argentina on February 1, 1998. In 1995, the cost of the company's initial 25% interest was $257 million. No additional equity was contributed by the company during the year (1997 – $29 million).

(b) During the year, the company made additional shareholder loans of $9 million (US $6 million) (1997 – $57 million, US $41 million) to fund additional capital requirements of Minera Alumbrera Limited. These US dollar denominated loans bear interest at a rate of LIBOR plus 2% and will be repaid from project cash flows as permitted under senior debt agreements.

(c) During the year $20 million (US $15 million) (1997 – $34 million, US $24 million) included in receivables and prepaid expenses was reclassified to investment as long term shareholder loans and $14 million was repaid from project financing drawdowns.

(d) 25% of the assets, liabilities, revenue, and expenses of Minera Alumbrera Limited are as follows:

(in millions of Canadian dollars)	1998	1997
Revenue	$ 117	$ -
Cost of sales	99	-
Operating profit	18	-
Expenses	22	-
Income taxes	1	-
Net loss	$ (5)	$ -
Assets		
Current	$ 64	$ 50
Non-current	645	594
Liabilities		
Current	(50)	(42)
Non-current	(256)	(246)
Net investment	$ 403	$ 356

10. OTHER ASSETS

(in millions of Canadian dollars)	1998	1997
Goodwill and other, net of amortization (note (4b))	$ 44	$ 17
Pension (note 18)	12	13
	$ 56	$ 30

11. SITE RESTORATION AND RELATED OBLIGATIONS

(in millions of Canadian dollars)	1998	1997
Site restoration and related obligations	$ 70	$ 93
Current portion included in accounts payable and accrued liabilities	30	20
	$ 100	$ 113

During the year the company spent $17 million (1997 – $14 million) on site restoration costs. In addition, $4 million (1997 – $4 million) was provided for future reclamation costs. The above provisions represent the company's best estimate of its planned shutdown and restoration programs at producing, closed and discontinued mining operations, which it believes meet or exceed existing requirements. Future changes, if any, in requirements, laws and regulations and operating assumptions may be significant and will be recognized if and when applicable.

12. LONG TERM DEBT

(in millions of Canadian dollars)	1998	1997
7.05% US dollar debentures due Nov. 1, 2005 (a)	$ 230	$ 215
Notes payable (b)	12	-
	$ 242	$ 215

(a) In November 1995 the company issued US $150 million ($230 million; 1997 $215 million) of unsecured 7.05% debentures due November 1, 2005. Costs associated with the issue of the debentures are being amortized over the term of the debt.

(b) A U.S. subsidiary company has a revolving line of credit agreement (the "agreement") with a bank. The agreement provides for maximum borrowings up to US $12 million through April 30, 2002. The agreement provides for floating rates, at the time of borrowing, based on US prime or LIBOR. The interest rates at December 31, 1998 approximated 7%. The agreement is collateralized by the property and equipment, inventory and accounts receivable of the U.S. subsidiary company.

(c) The company has a committed, unsecured revolving credit facility of US $500 million with a maturity date of April 30, 2003 and an interest rate of LIBOR plus 0.25%. As at December 31, 1998, $10.4 million of this facility was drawn down in the form of a standby letter of credit.

13. DEFERRED TAXES

The components of the company's deferred tax liability at December 31, are as follows:

(in millions of Canadian dollars)	1998	1997
Property, plant and equipment	$ 152	$ 128
Mine development costs	23	20
Reclamation	(44)	(43)
Other	(1)	27
	$ 130	$ 132

14. CONVERTIBLE DEBENTURES AND EQUITY OFFERING

(a) On February 4, 1997 the company arranged a $500 million financing. The financing comprised $353.4 million of 5.5% convertible redeemable subordinated debentures due February 1, 2007 evidenced by instalment receipts, and 4,417,500 common shares. The company received $308 million, representing the net proceeds on the sale of shares and the first instalment on the convertible debentures. The second instalment on the convertible debentures of $176 million was received on February 4, 1998. The debentures are not redeemable prior to February 1, 2000. Between February 1, 2000 and February 1, 2002, provided the weighted average of the trading price of the company's shares reaches certain levels, the company may redeem the debentures at par plus accrued and unpaid interest for cash or common shares. After February 1, 2002 the company may redeem the debentures at par for cash or common shares. Each debenture is convertible at the option of the holder into common shares at a price of $40 per common share.

(b) In view of the company's right to redeem the debentures through the issuance of common shares, they are being accounted for as having both a debt and equity component in accordance with accounting standards of the Canadian Institute of Chartered Accountants. The liability element of $61 million as at December 31, 1998, (1997 – $75 million) represents the present value of interest payments discounted at the company's normal borrowing rate until February 4, 2002. Interest expense is determined on the debt component. Each year a portion of the required semi-annual interest payment is applied as a reduction of the debt component. Interest expense for the year ended December 31, 1998 amounted to $5 million (1997 – $5 million).

(c) The difference between the amount calculated as debt and the face value of the debentures is classified as equity, net of issue costs and taxes. The equity component of the debentures is increased over its five-year term to the full face value by charges to retained earnings. The increase in the carrying value of the equity component, referred to as the equity accretion, is computed on an after-tax basis for the purpose of calculating earnings per share.

15. PREFERRED SECURITIES

On August 7, 1998 the company issued US $150 million of preferred securities at 9 3/8%. The preferred securities are due September 30, 2047 and accrue interest from the date of issuance, payable quarterly commencing September 30, 1998.

The company, through a trustee, can redeem them at its option on or after August 7, 2003 and has the right to deliver common shares in lieu of cash as payment for both principal and interest.

The principal amounts of the preferred securities, net of after-tax issue costs of $6 million ($9 million pre-tax), have been classified as equity and the interest payments, on an after-tax basis, are classified as dividends.

16. CAPITAL STOCK

Authorized:	350,000	First Preference Shares, issuable in series
	14,109,659	Second Preference Shares, issuable in series
	Unlimited	Common Shares

Issued:	Common Shares	
	Number	Amount
		(millions $ Cdn)
Balance, December 31, 1996	55,985,804	$ 342
Issued under share option plans	176,152	4
Issued under equity offering	4,417,500	144
Balance December 31, 1997	60,579,456	$ 490
Issued under share option plans	43,568	1
Balance December 31, 1998	60,623,024	$ 491

(a) In calculating basic earnings per share, the net earnings of $34 million (1997 – $81 million) are reduced by the accretion of the equity element of the convertible debentures of $11 million (net of tax) (1997 – $9 million (net of tax)) and by the dividends on preferred securities of $5 million (net of tax) (1997 – nil). Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year of 60,613,686 (1997 – 60,101,674).

Fully diluted earnings per share of $0.31 (1997 – $1.17) assumes that all the options outstanding of 3,056,760 at December 31, 1998 had been converted into common shares as of January 1, 1998 and are calculated using the weighted average number of common shares outstanding of 60,613,686 (1997 – 62,090,044).

(b) Dividends paid per common share were $0.49 in the year ended December 31, 1998 and $0.70 in the year ended December 31, 1997.

(c) Financial covenants exist under certain loan arrangements which, if breached would restrict the payment of common share dividends.

(d) A Shareholder Protection Rights Plan, is in place whereby one right is issued for each common share of the company. These rights remain attached to the shares and are not exercisable until the occurrence of certain designated events.

The rights become exercisable when a person or group acting jointly acquires 20% or more of the voting shares of the company except with the approval of the Board of Directors or by a *"Permitted Bid"*. A *"Permitted Bid"* is one made to all holders of voting shares for all voting shares outstanding on identical terms. The bid must be in compliance with applicable Canadian and United States securities laws and accepted by holders of more than 50% of the voting shares for which the bid is made. In the event the rights become exercisable, each right will allow shareholders other than the acquiring person or group to acquire common shares of the company at 50% of the then current market price.

Share Option Plans

Outstanding share options on common shares at December 31, 1998 and 1997 under the various share option plans are as follows:

	1987 Plan		*1993 Plan*		*1993 Directors' Plan*		*1996 Directors' Plan*	
Share Option Plan	**1998**	1997	**1998**	1997	**1998**	1997	**1998**	1997
Number outstanding	**128,800**	128,800	**2,428,786**	1,701,421	**193,000**	193,000	**306,174**	195,757
Range of exercise prices	13.25-18.00		18.00-36.30		17.75-25.00		22.10-34.60	
Shares reserved	128,800		3,534,960		193,000		600,000	

(a) The 1987 Share Option Plan and the 1993 Directors' Plan are now terminated except as to outstanding options which expire at various times up to 2002 and 2005 respectively.

(b) Options granted under the 1993 Share Option Plan generally have a term of 10 years and vest as to one third of the options granted on each of the first, second and third anniversaries of the date of the grant.

(c) Options granted under the 1996 Directors' Plan vest as to one-third of the options granted on each of the first, second and third anniversaries of the date of the grant. The Plan will terminate on June 21, 2001.

17. CUMULATIVE TRANSLATION ADJUSTMENT

(in millions of Canadian dollars)	1998	1997
Balance, beginning of year	$ 67	$ 31
Increase during the year	91	36
Balance, end of year	$ 158	$ 67

The cumulative translation adjustment represents the net unrealized foreign currency translation gain on the company's net investment in self-sustaining foreign operations. The increase during the year was primarily a result of the increase in the year end exchange rate of the US dollar from $1.43 in 1997 to $1.53 in 1998.

18. PENSION PLANS

Substantially all employees of the company are participants in either a defined contribution or non-contributory defined benefit pension plan. The funds of each of the various defined benefit pension plans are administered by a corporate trustee or an insurance company. Benefits under the defined benefit plans are generally determined by years of service and employees' compensation, the latter being based on the three highest of the last ten years of employment, or a flat dollar benefit.

An actuarial valuation is performed at least triennially with intervening annual reassessments for substantially all defined benefit plans to determine the present value of the accrued pension benefits. Pension fund assets are carried at values determined by using a three-year average between book and market values.

The following data is based upon reports of independent actuarial consultants at December 31:

(in millions of Canadian dollars)	1998	1997
Market value of defined benefit pension fund assets	$ 340	$ 312
Less actuarial present value of projected benefit obligations	252	231
Total surplus	$ 88	$ 81
Unrecorded defined benefit plan surplus	$ 76	$ 68
Pension asset recognized on the consolidated balance sheet (note 10)	12	13
Total surplus	$ 88	$ 81

Benefits from the defined contribution plan are based on the accumulated plan value, interest rates and type of life annuity chosen at date of annuity purchase.

The total pension expense amounted to $4 million in 1998 (1997 – $3 million). The components of the pension expense are as follows:

(in millions of Canadian dollars)	1998	1997
Current service cost	$ 7	$ 6
Interest cost on projected benefit obligations	17	16
Actual return on plans' assets	(22)	(33)
Net amortization and deferrals	2	14
Pension expense	$ 4	$ 3

The interest rate used for determination of defined benefit plan benefits and return on assets exceeded the assumed annual rate of increase in compensation by 2.6 % in each of 1998 and 1997. The unrecorded plan surplus is amortized on a straight-line basis over periods varying from 1.4 years to 15 years, depending on the pension plan demographics.

19. COMMITMENTS AND CONTINGENCIES

(a) In September 1998, the company, along with partners Noranda and Teck, elected to proceed with the development of the Antamina property. In connection with this election, they have made an investment commitment of US $2.5 billion. If by June 6, 2002 (extended from the original date of September 6, 2001), the actual investment is less than the investment commitment, 30% of the shortfall would be payable by CMA to Centromin (a mining company owned by the Peruvian government) in lieu of further expenditures. The company and its partners have jointly and severally guaranteed CMA's obligations to Centromin.

The company's share of the estimated total cost to complete the Antamina copper-zinc project as at December 31, 1998 was US $776 million.

(b) The estimated total cost to complete other capital projects as at December 31, 1998 was $61 million (committed $38 million).

(c) Project financing negotiations with a consortium of international lenders were completed in February 1997 for Minera Alumbrera Limited. The maximum amount available under the facilities was US $670 million, of which US $660 million was ultimately drawn down. Following the first repayment, US $622 million was outstanding at year end. The company has provided a several guarantee for 25% of the outstanding amounts under the facilities. This guarantee will terminate upon satisfaction of completion tests and contains exclusions for certain political risks. In addition, Minera Alumbrera Limited has a VAT letter of credit for up to US $213 million of which the company has unconditionally severally guaranteed to the extent of 25%. The amount utilized at December 31, 1998 was US $196 million. Furthermore, Minera Alumbrera Limited has a US $20 million working capital facility which the company has unconditionally severally guaranteed to the extent of 25%. At December 31, 1998, the amount outstanding under the working capital facility was US $10 million.

(d) The company is committed to future minimum annual rental payments in the amount of $96 million under operating leases that expire from 1999 to 2015. Commitments are $27 million in 1999, $17 million in 2000, $11 million in 2001, $7 million in 2002 and $6 million in 2003.

(e) Potash Company of America, Inc. ("PCA"), a subsidiary of Rio Algom, and Rio Algom are defendants with other U.S. and Canadian potash producers in a class action civil suit brought by direct potash purchasers in the United States in 1993. The plaintiffs allege the defendants violated various federal anti-trust laws, including the US Sherman Act, with respect to the sale of potash from 1987 to the present. The plaintiffs are claiming damages and other relief on behalf of themselves and certain classes of three direct-purchasers. Other substantially-identical suits have been brought by indirect potash purchasers in Illinois and in California. The California action against Rio Algom and PCA has been dismissed, and the Illinois action also has been dismissed, and dismissal was affirmed. On January 2, 1997 the District Court in the direct-purchaser class action suit, consolidated in Minnesota, ordered that summary judgement be granted in favour of all defendants, including PCA and Rio Algom, and dismissed the plaintiffs' class action complaint. Plaintiffs have appealed the ruling to the Eighth Circuit Court of Appeals in respect of all defendants except Rio Algom Limited and oral argument was heard on November 17, 1997.

PCA believes these actions to be unfounded and is continuing to vigorously defend against them.

20. YEAR 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved. (See unaudited Management's Discussion and Analysis for additional information).

21. DEPRECIATION AND AMORTIZATION

(in millions of Canadian dollars)	1998	1997
Plant machinery and equipment	$ 57	$ 39
Mining properties	24	22
Amortization of goodwill and other	4	2
	$ 85	$ 63

22. INTEREST EXPENSE

(in millions of Canadian dollars)	1998	1997
Interest on demand loans and other	$ 2	$ 1
Interest on long term debt	16	20
Interest on convertible debentures	5	5
	$ 23	$ 26

23. INCOME AND MINING TAXES

Earnings before taxes and equity in net losses of Minera Alumbrera Limited consist of:

(in millions of Canadian dollars)	1998	1997
Canada	$ (25)	$ 35
United States	46	49
Chile	40	64
Other	4	(7)
	$ 65	$ 141

Income and mining taxes consist of:

(in millions of Canadian dollars)	1998	1997
Current		
Canadian	$ 11	$ 19
United States	18	15
Chile	1	-
	30	34
Deferred		
Canadian	(19)	(2)
United States	1	6
Chile	14	22
	(4)	26
Total income and mining taxes	$ 26	$ 60

The effective rates of income tax in the consolidated statements of earnings are different from the combined Canadian federal and provincial income tax rate of 45% (1997 – 45%) as set out below:

(in millions of Canadian dollars)	1998	1997
Income taxes at the statutory rate	$ 29	$ 63
Tax effect of:		
Lower effective foreign tax rates	(7)	(5)
Non-deductible amortization arising from acquisitions	4	3
Other	-	(1)
Income taxes in the consolidated statements of earnings	$ 26	$ 60

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values for all financial instruments approximate fair values except for the following:

	Carrying Value		Fair Value	
(in millions of Canadian dollars)	1998	1997	1998	1997
Derivatives				
Copper put options	$ 5	$ 1	$ 20	$ 8
Forward currency contracts	$ -	$ -	$ (24)	$ -
Financial liabilities				
7.05% US dollar debentures due November 1, 2005	$ 230	$ 215	$ 238	$ 218

The fair value of the derivatives and financial liabilities is based on market prices at December 31.

The carrying amounts of cash and short term investments, receivables, bank loans and overdrafts and accounts payable and accrued liabilities in the consolidated balance sheets approximate fair value due to the short term maturities of these instruments. The carrying value of the liability element of convertible debentures also approximates fair value because the stated interest rate approximates the market rate.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The company has entered into a series of copper put options which provide an average price of US $0.73 per pound for 125 million pounds of the company's 1999 copper production and US $0.70 per pound for 50 million pounds of the company's 2000 copper production.

At December 31, 1998, the company had outstanding forward currency contracts to sell US $249 million at an average rate to Canadian dollars of $1.43. Some of the company's operations produce commodities that are sold in US dollars whereas the costs of such production are predominantly in Canadian dollars. The purpose of the company's hedging activities is to reduce the risk that the eventual US dollar cash flows used to fund Canadian production costs will be adversely affected by an appreciation of the Canadian dollar. The company has not engaged in any significant foreign currency activities which have not been specifically identified as hedges.

Realization under these hedge contracts is dependent upon the ability of the counterparties to perform in accordance with the terms of the contracts; however, the company's credit risk is limited to unrealized gains existing at any time.

25. SEGMENT DISCLOSURES

The company has adopted the CICA Accounting Recommendations regarding segment disclosures during the year.

The operations of the company are grouped into operating and geographic segments according to the basis upon which senior management evaluates the operations.

Operating Segments

Cerro Colorado ("Cerro")

- Mining and processing of copper ore into cathode copper in Chile.

Highland Valley Copper ("HVC")

- Partnership interest in mining and milling of copper-molybdenum ore in Canada.

North American Metals Distribution ("NAMDG")

- Distribution of stainless steel, aluminum and other metal products through service centres in North America.

Other Mining

- In-situ leach uranium mine in the United States – Rio Algom Mining Corp.
- Joint venture interest in mining and treatment of metallurgical coal in Canada – Bullmoose.
- Royalty interest in a zinc-lead mine in Canada – Polaris.

Corporate, Development and Exploration

- Corporate expenses.
- Investment in Minera Alumbrera Limited, a copper-gold deposit in northwest Argentina.
- Development projects in Chile, Peru and the United States.
- Exploration through offices in North and South America, Ireland and Africa.
- Exploration and investment in Turkey.

Segmented Earnings

For the Years Ended December 31, 1998 and 1997

(in millions of Canadian dollars)	Cerro 1998	Cerro 1997	HVC 1998	HVC 1997	NAMDG 1998	NAMDG 1997	Other Mining 1998	Other Mining 1997	Corporate, Development and Exploration 1998	Corporate, Development and Exploration 1997	Total 1998	Total 1997
Revenue	179	186	103	135	1,620	1,432	102	82	-	-	2,004	1,835
Cost of operations	106	85	86	84	1,540	1,351	77	55	-	-	1,809	1,575
Depreciation and amortization	33	19	20	19	13	9	17	15	-	-	83	62
Operating profit	40	82	(3)	32	67	72	8	12	-	-	112	198
Corporate expenses*	-	-	-	-	-	-	-	-	(34)	(29)	(34)	(29)
Exploration	-	-	-	-	-	-	-	-	(15)	(26)	(15)	(26)
Interest expense	-	-	-	-	-	-	-	-	(23)	(26)	(23)	(26)
Investment and other income	-	-	-	-	-	-	-	-	25	24	25	24
	40	82	(3)	32	67	72	8	12	(47)	(57)	65	141
Equity in net losses of associated company	-	-	-	-	-	-	-	-	(5)	-	(5)	-
Earnings before taxes	40	82	(3)	32	67	72	8	12	(52)	(57)	60	141

**Includes depreciation and amortization costs of $2 million in 1998 and $1 million in 1997*

Segmented Balance Sheets

As at December 31, 1998 and 1997

(in millions of Canadian dollars)	Cerro 1998	Cerro 1997	HVC 1998	HVC 1997	NAMDG 1998	NAMDG 1997	Other Mining 1998	Other Mining 1997	Corporate, Development and Exploration 1998	Corporate, Development and Exploration 1997	Total 1998	Total 1997
Assets												
Current assets	88	97	41	46	510	439	67	51	225	341	931	974
Discontinued operations	-	-	-	-	-	-	-	-	-	17	-	17
	88	97	41	46	510	439	67	51	225	358	931	991
Fixed assets and mining properties	779	554	141	152	112	93	201	186	243	129	1,476	1,114
Investment	-	-	-	-	-	-	-	-	403	356	403	356
Other assets	-	-	5	3	47	20	-	-	4	7	56	30
Total assets	867	651	187	201	669	552	268	237	875	850	2,866	2,491
Liabilities												
Current liabilities	40	53	30	42	200	151	35	22	124	97	429	365
Long term liabilities	83	63	5	5	9	4	28	24	362	400	487	496
Total liabilities	123	116	35	47	209	155	63	46	486	497	916	861
Net assets	744	535	152	154	460	397	205	191	389	353	1,950	1,630

Segmented Cash Flow

For the Years Ended December 31, 1998 and 1997

(in millions of Canadian dollars)	Cerro 1998	Cerro 1997	HVC 1998	HVC 1997	NAMDG 1998	NAMDG 1997	Other Mining 1998	Other Mining 1997	Corporate, Development and Exploration 1998	Corporate, Development and Exploration 1997	Total 1998	Total 1997
Operating activities before change in non-cash working capital	74	97	16	52	32	56	33	30	(48)	(75)	107	160
Net change in non-cash working capital and other	(15)	20	(6)	9	(4)	(27)	-	(22)	(5)	(9)	(30)	(29)
Discontinued operations	-	-	-	-	-	-	-	-	30	-	30	-
Operating activities	59	117	10	61	28	29	33	8	(23)	(84)	107	131
Net capital expenditures	215	127	8	7	13	7	28	28	103	86	367	255

Geographic Data

(in millions of Canadian dollars)	Canada 1998	Canada 1997	USA 1998	USA 1997	Chile 1998	Chile 1997	Argentina 1998	Argentina 1997	Peru 1998	Peru 1997	Total 1998	Total 1997
Revenue	534	457	1,291	1,192	179	186	-	-	-	-	2,004	1,835
Capital assets and goodwill	280	271	337	248	813	575	403	356	102	50	1,935	1,500

26. DIFFERENCES FROM UNITED STATES ACCOUNTING PRINCIPLES

Canadian GAAP varies in certain significant respects from the principles and practices generally accepted in the United States ("US GAAP"). The effect of these principal differences on the company's consolidated financial statements are quantified below and described in the accompanying notes:

Statements of Earnings

(in millions of Canadian dollars except per share data)	1998	1997
Net earnings for the year reported under Canadian GAAP	$ 34	$ 81
Capitalized interest on deferred mine development costs (a)	35	21
Amortization of capitalized interest	(3)	-
Increase in provision for pensions and post-retirement benefits (b)	(6)	-
Increase in interest expense (c)	(23)	(12)
Adjustments of certain financial instruments to market (d)	(24)	-
Income tax adjustments on the above - noted items	9	(4)
Net earnings for the year before changes in accounting policies (note 2)	$ 22	$ 86
Changes in accounting policies (net of tax)	(2)	2
Net earnings for the year reported under US GAAP	20	88
Net earnings per common share for the year	$ 0.33	$ 1.46
Fully diluted net earnings per common share	$ 0.33	$ 1.45

(a) The company capitalizes interest on a mine development project only if the interest arises on indebtedness incurred specifically to finance the project. Under US GAAP, a portion of all interest costs incurred must be capitalized as part of the project under development.

(b) The company accounts for post-retirement benefits, other than pensions, on a cash basis. Under US GAAP, the projected future cost of providing post-retirement benefits, such as health care and life insurance, are recognized as an expense as employees render services rather than when such costs are paid.

(c) The company accounts for the convertible debentures in accordance with their substance and as such they are presented in the financial statements in their liability and equity component parts as described in note 14. Under US GAAP, the entire face value of the convertible debentures is treated as debt with interest expense based on the coupon rate of 5.5%. The increase in interest expense was $15 million in 1998 (1997 – $12 million).

Furthermore, the company accounts for the preferred securities in accordance with their substance and as such they are included in shareholders' equity. Under US GAAP such preferred securities are treated as debt with interest expense based on the coupon rate of 9 3/8 %. The increase in interest expense was $8 million in 1998 (1997 – nil).

(d) Under Canadian GAAP, certain financial instruments qualify as a hedge for accounting purposes and therefore gains and losses on these contracts are recognized in revenue at the time the anticipated cash flows are incurred. However, under US GAAP these contracts must be marked to market at the end of each reporting period with any resulting gain or loss recognized in income.

Statements of Comprehensive Earnings

(in millions of Canadian dollars)	1998	1997
Net earnings for the year reported under US GAAP	$ 20	$ 88
Other comprehensive earnings:		
Foreign currency translation adjustments	91	36
Comprehensive earnings	$ 111	$ 124

The statements of comprehensive earnings provide a measure of all changes in equity of the company that result from transactions and other economic events that occur during the period.

Statements of Cash Flow

US GAAP defines cash and cash equivalents to include cash and short term, highly-liquid investments with original maturities of three months or less and does not include current bank loans and overdrafts; whereas under Canadian GAAP, the company defines cash and cash equivalents to include cash and short term investments less current bank loans and overdrafts. As a result, the consolidated statements of cash flow under US GAAP would be as follows:

(in millions of Canadian dollars)	1998	1997
Cash and cash equivalents, US GAAP, beginning of year	$ 78	$ 164
Operating activities' cash flow on a Canadian basis	107	131
Capitalized interest on deferred mine development	35	21
Amortization of capitalized interest	(3)	-
Increase in interest expense net of current tax	(16)	-
Operating activities' cash flow on a US basis	123	152
Financing activities' cash flow on a Canadian basis	343	60
Accretion of equity element of convertible debentures	11	-
Preferred securities dividends	5	-
Increase in short term investments	(20)	(10)
Increase (decrease) in short term borrowings	3	(4)
Financing activities' cash flow on a US basis	342	46
Investing activities' cash flow on a Canadian basis	(439)	(263)
Capitalized interest on deferred mine development	(35)	(21)
Amortization of capitalized interest	3	-
Acquired current bank loan	13	-
Investing activities' cash flow on a US basis	(458)	(284)
Cash and cash equivalents, US GAAP, end of year	$ 85	$ 78

Net change in non-cash working capital items related to operations:

(in millions of Canadian dollars)	1998	1997
Receivables and prepaid expenses	$ (18)	$ (17)
Inventories	(5)	(48)
Accounts payable and accrued liabilities	20	33
Income and mining taxes payable	(10)	1
Other	11	13
	$ (2)	$ (18)

In connection with the consolidated statements of cash flows, the following supplementary disclosures are required under US GAAP:

(in millions of Canadian dollars)	1998	1997
Interest paid	$ 46	$ 34
Income and mining taxes paid, net	$ 42	$ 40

Balance Sheets

The following summarizes the balance sheet amounts in accordance with US GAAP where different from the amounts reported under Canadian GAAP.

	1998		1997	
(in millions of Canadian dollars)	Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
Cash and short term investments	$ 175	$ 85	$ 148	$ 78
Receivables and prepaid expenses	316	406	286	356
Mining properties	602	687	465	518
Accounts payable	389	476	326	382
Long term debt	242	813	215	563
Liability element of convertible debentures	61	-	75	-
Shareholders' equity	1,950	1,437	1,630	1,353

Shareholders' Equity

(in millions of Canadian dollars)	1998	1997
Shareholders' equity based on Canadian GAAP	$1,950	$ 1,630
Equity component of convertible debentures	(293)	(276)
Preferred securities	(223)	-
Capitalized interest	88	53
Amortization of capitalized interest	(3)	-
Pensions and post-retirement benefits	(64)	(58)
Adjustment of certain financial instruments to market	(24)	-
Income tax adjustments on the above-noted items	6	4
Shareholders' equity based on US GAAP	$1,437	$ 1,353

New Standards for US GAAP

In 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share", SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of Enterprise and Related Information". The company has applied these standards in these financial statements.

In 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This new standard requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The company is analysing the impact of SFAS No. 133 and will adopt this standard in 2000.

Also in 1998, the FASB issued Statement of Principles ("SOP") 98-5 – Start-up Costs. This new statement requires that certain defined start-up costs be expensed as incurred. The company is analysing the impact of SOP 98-5 and will adopt this statement in 1999.

27. SUBSEQUENT EVENT

Significant losses were projected for the Highland Valley Copper partnership due to the low price of copper and on January 18, 1999, the partnership announced its intention to suspend operations indefinitely beginning on May 15, 1999.

Management estimates that the mine will be able to meet shut-down and ongoing maintenance costs for 1999 through the realization of concentrate inventory and accounts receivable. Should the shut-down extend beyond the end of 1999, the mine will require the financial support of its partners and bankers to meet ongoing costs.

HVC and its partners will continue to work with the utilities, suppliers, governments, employees and the union in an attempt to identify cost reductions to determine if sustainable profitable operations can be achieved and the shut-down averted.

Earnings *(millions of Canadian dollars)*	1998	1997	1996
Revenue	$ 2,004	$ 1,835	$ 1,833
Cost of mine production and metal sales	1,609	1,391	1,444
Selling, general and administration	232	212	204
Other income and interest expense	(2)	2	18
Depreciation and amortization	85	63	61
Exploration	15	26	14
	1,939	1,694	1,741
Earnings before taxes, minority interest and discontinued operations	65	141	92
Income and mining taxes	26	60	40
Equity in net losses of associated company	(5)	-	-
Earnings from continuing operations, before minority interest in subsidiary companies	34	81	52
Minority interest in net earnings of subsidiary companies	-	-	-
Earnings from continuing operations	34	81	52
Discontinued operations, net of tax	-	-	34
Earnings before extraordinary items	34	81	86
Extraordinary items	-	-	-
Net earnings	$ 34	$ 81	$ 86

Production Data *(millions except potash, coal and steel)*			
Cathode copper (pounds)	165	133	131
Copper in concentrate (pounds)*	208	116	110
Gold (Alumbrera - thousands of ounces)*	131	-	-
Uranium in concentrate (pounds)	0.9	0.3	1.2
Molybdenum in concentrate (pounds)*	1.8	1.5	1.0
Potash (thousands of tons)	-	-	-
Coal (thousands of tonnes)*	520	539	544
Tin in concentrate (pounds)	-	-	-
Steel (thousands of tons)	-	-	-

*Rio Algom's share

Financial Data *(millions of Canadian dollars except per share data)*			
Per common share			
Net earnings	$ 0.31	$ 1.19	$ 1.57
Dividends	0.49	0.70	0.70
Equity	23.65	22.35	20.39
Working capital	502	626	554
Plant and equipment	869	515	472
Mining properties	602	465	400
Total assets	2,866	2,491	2,088
Return on average total assets	0.70%	3.1%	4.0%
Redeemable preference shares	-	-	-
Long term debt	303	291	408
Advances from Ontario Hydro	-	-	-
Net capital expenditures	367	255	77
Common shareholders' equity	1,434	1,354	1,141
Return on average common shareholders' equity	1.3%	5.7%	8.1%

Other Data			
Common shares outstanding (millions)	60.6	60.6	56.0
Number of employees	2,896	2,451	2,337
Price range of common shares			
high	$ 29.50	$ 37.55	$ 32.25
low	$ 15.00	$ 23.75	$ 23.38

1995	1994	1993	1992	1991	1990	1989	1988
$ 1,982	$ 1,109	$ 847	$ 795	$ 814	$ 953	$ 1,250	$ 1,535
1,448	784	654	587	603	686	974	1,137
229	174	148	140	139	134	145	154
(6)	(10)	(36)	(9)	(12)	(45)	(34)	(20)
54	44	29	28	29	27	23	29
9	7	8	12	18	15	11	7
1,734	999	803	758	777	817	1,119	1,307
248	110	44	37	37	136	131	228
107	42	14	17	7	41	47	96
-	-	-	-	-	-	-	-
141	68	30	20	30	95	84	132
5	4	1	1	1	1	3	29
136	64	29	19	29	94	81	103
7	9	3	20	(4)	(7)	(33)	12
143	73	32	39	25	87	48	115
-	-	-	-	-	-	25	19
$ 143	$ 73	$ 32	$ 39	$ 25	$ 87	$ 73	$ 134
80	38	-	-	-	-	-	-
117	120	116	127	127	115	80	160
-	-	-	-	-	-	-	-
2.0	1.8	1.8	1.9	1.5	4.5	5.9	6.5
1.2	1.2	1.3	1.3	1.3	1.3	1.0	1.8
-	-	713	1,071	1,020	1,069	758	608
538	544	522	464	470	447	455	647
-	-	-	-	9.8	8.6	7.7	6.8
-	-	-	-	-	-	129	246
$ 2.76	$ 1.44	$ 0.68	$ 0.85	$ 0.51	$ 1.93	$ 1.58	$ 3.02
0.60	0.60	0.60	0.70	7.05	1.05	0.95	0.70
19.15	17.41	15.01	14.46	13.84	20.25	19.38	18.92
509	570	361	361	400	717	620	672
462	426	206	214	212	208	183	243
391	403	167	167	174	187	210	129
2,271	1,983	1,598	1,711	1,591	1,981	2,085	2,094
6.7%	4.0%	1.8%	2.3%	1.3%	4.2%	3.3%	6.3%
-	-	26	26	27	27	34	35
441	287	229	100	23	30	36	46
247	257	269	276	284	293	300	308
108	76	226	143	21	22	48	79
998	905	656	632	605	885	847	827
15.0%	9.4%	4.6%	6.0%	3.0%	9.8%	8.2%	17.1%
52.1	52.0	43.7	43.7	43.7	43.7	43.7	43.7
2,765	2,810	2,575	2,996	3,178	3,471	4,902	7,926
$ 29.63	$ 27.13	$ 22.75	$ 18.50	$ 22.88	$ 22.88	$ 27.00	$ 25.00
$ 22.63	$ 21.00	$ 17.00	$ 15.13	$ 14.25	$ 16.00	$ 22.25	$ 18.25

ELEVEN YEAR REVIEW: RELEVANT FACTORS

- The Antamina partnership, in which Rio Algom has a 37.5% interest, committed to proceed with development of the project and to invest US$2.5 billion by June 2002 or pay 30% of any shortfall to the Peruvian government.
- Rio Algom issued US$150 million of preferred securities in the United States. The securities, which are junior subordinated debentures, pay interest at an annual rate of 9 3/8% and are due September 30, 2047.
- The Alumbrera copper-gold mine in Argentina, in which Rio Algom has a 25% interest, achieved commercial production in February 1998. The company's share of production for the year was 85 million pounds of copper and 131,000 ounces of gold.
- The Smith Ranch *in situ* uranium mine commenced commercial production in December 1997.
- In January 1997, the company arranged a $500 million underwritten financing, including $147 million from the issuance of 4.4 million common shares and $353 million from the issuance of 5.5% convertible subordinated debentures. Proceeds from the debenture issue were received in two instalments, the first in February 1997 and the second in February 1998.
- The Elliot Lake uranium operations, of which the last operating mine, Stanleigh, ceased operations effective June 30, 1996, are shown as discontinued operations. The Quirke and Panel uranium mines at Elliot Lake were closed in 1990.
- The company sold its 60.9% interest in Atlas Steels Limited of Australia in 1995.
- The Cerro Colorado mine commenced commercial production in June 1994.
- The potash operations, which were acquired in 1986, were sold in October 1993 and are shown as discontinued operations.
- The tin operations were closed down in 1992 and are shown as discontinued operations.
- A special dividend of $6.25 per common share was paid in 1991.
- Steel manufacturing operations were sold in 1989.

CORPORATE GOVERNANCE

In 1994, the TSE Report on Corporate Governance recommended that The Toronto Stock Exchange adopt as a listing requirement that each listed company incorporated in Canada be required to disclose information relating to its system of corporate governance with reference to the guidelines set out in the TSE Report. Rio Algom supports these initiatives and is committed to maintaining a leadership role in the area of corporate governance.

Rio Algom's directors and management have responded to the need to establish forward-looking governance policies and to constantly evaluate and modify them to ensure their effectiveness. Rio Algom's disclosure is set out in the Management Information Circular relating to the company's April 29, 1999 Annual and Special Meeting of Shareholders. This disclosure statement has been prepared by the Corporate Governance Committee of the Board and has been approved by the Board of Directors.

(C$ millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1998					
Revenue					
Cerro Colorado	38	42	38	61	179
Highland Valley Copper	22	37	19	25	103
Other mining	23	25	18	36	102
Metals distribution	364	408	440	408	1,620
	$ 447	$ 512	$ 515	$ 530	$ 2,004
Operating profit					
Cerro Colorado	10	13	8	9	40
Highland Valley Copper	-	2	(2)	(3)	(3)
Other mining	1	2	1	4	8
Metals distribution	16	18	17	16	67
	$ 27	$ 35	$ 24	$ 26	$ 112
Net earnings	$ 9	$ 12	$ 6	$ 7	$ 34
Net earnings per common share	$ 0.11	$ 0.16	$ 0.02	$ 0.02	$ 0.31
Key Statistics					
Copper Production (millions of pounds)*					
Cerro Colorado	35	35	40	55	165
Highland Valley Copper	31	29	30	33	123
Alumbrera**	13	20	23	29	85
	79	84	93	117	373
Copper Sales (millions of pounds)*					
Cerro Colorado	35	36	35	59	165
Highland Valley Copper	27	42	23	33	125
Alumbrera**	12	24	20	26	82
	74	102	78	118	372
1997					
Revenue					
Cerro Colorado	47	56	42	41	186
Highland Valley Copper	25	50	25	35	135
Other mining	14	20	18	30	82
Metals distribution	350	373	362	347	1,432
	$ 436	$ 499	$ 447	$ 453	$ 1,835
Operating profit					
Cerro Colorado	22	31	16	13	82
Highland Valley Copper	6	16	4	6	32
Other mining	1	1	2	8	12
Metals distribution	13	19	17	23	72
	$ 42	$ 67	$ 39	$ 50	$ 198
Net earnings	$ 16	$ 28	$ 18	$ 19	$ 81
Net earnings per common share	$ 0.24	$ 0.43	$ 0.25	$ 0.27	$ 1.19
Key Statistics					
Copper Production (millions of pounds)*					
Cerro Colorado	32	34	32	35	133
Highland Valley Copper	27	28	30	31	116
Alumbrera**	-	-	-	-	-
	59	62	62	66	249
Copper Sales (millions of pounds)*					
Cerro Colorado	33	35	31	33	132
Highland Valley Copper	18	40	21	34	113
Alumbrera**	-	-	-	-	-
	51	75	52	67	245

**Rio Algom's Share*

***Not included in revenue as the company's investment is accounted for using the equity method*

BACKWARDATION

A market condition in which the cash or spot price stands at a premium over the price for delivery at a forward date, usually three months.

CASH COSTS

Costs from mining operations related to production, transportation, refining, marketing and administration, translated where applicable from the local currency into US dollars at the average exchange rate, net of byproduct credits. Cash costs do not include amortization and depreciation expenses.

CATHODE COPPER (ELECTROWINNING)

Refined copper which is produced at Cerro Colorado using the electrowinning process. In this process, copper contained in a sulphuric acid-copper sulphate solution is recovered in an electrolytic cell. Electric current flows between a lead anode and a stainless steel cathode, plating the copper out onto the cathode. The resulting product is more than 99% pure.

COMMERCIAL PRODUCTION

The point at which a project is considered to have reached sustainable levels of production. After this point, revenue is recorded in earnings, and costs, including interest, are expensed as opposed to being capitalized.

CONCENTRATE

A product of the milling process containing the valuable metal from which most of the waste rock has been eliminated. It is the raw material for smelting.

FEASIBILITY STUDY

A study to determine the viability of placing a mining property into commercial production at an acceptable rate of return.

FLOTATION

A milling process in which some mineral particles are induced, by the introduction of specific reagents, to become attached to bubbles and float, while others sink, thus concentrating the valuable minerals and separating them from the worthless gangue.

GRADE

The percentage of ore content in rock.

HEDGING

The use of financial instruments to effectively offset price or exchange-rate risk inherent in a company's operations.

IN SITU URANIUM LEACHING

A process involving pumping an environmentally benign solution of water and sodium bicarbonate down an injection well where it flows through the deposit, dissolving uranium. The uranium-bearing solution is pumped to the surface where the uranium is recovered from the solution. *In situ* leaching generally has lower capital and operating costs because it not only replaces more capital intensive mining techniques, but also bypasses a large portion of the traditional milling process. It also has lower environmental impact than traditional methods.

LEACHING

The process by which a soluble mineral can be economically recovered from ore by dissolution.

LEACH PADS

As used at Cerro Colorado, leach pads are polyethylene-lined surfaces, each about half a square kilometre in area, on which approximately 350,000 tonnes of finely crushed ore are placed. The ore is treated for a period of approximately one year with a weak acid solution which, with the assistance of natural bacterial activity, leaches the copper from the ore.

LOST-TIME ACCIDENT FREQUENCY

A lost-time accident is one in which an employee misses a day or more of work because of an injury. The average lost-time accident frequency rate is the number of such accidents for every 200,000 hours worked. Rio Algom measures this rate for employees of all operations in which it has at least 50% ownership.

MATCHED-SALE CONTRACTS

Contracts, requiring the approval of the US Department of Commerce, which are intended to restrict the sale of Russian uranium in the United States until the year 2004. Under these contracts, Russian source material can only be sold if such sales are matched by the sale of an equivalent amount of US-produced material.

ORE

Rock containing metallic or non-metallic minerals that can be mined, processed and sold at a profit.

OXIDE

A mineral which has been oxidized. Oxidation tends to make minerals more readily soluble in acid.

PORPHYRY

Generally a body of intrusive rock containing relatively large crystals in a fine-grained groundmass. Often associated with large tonnage copper deposits which are amenable to open pit mining.

PROJECT FINANCING

A method of financing in which the lenders' primary recourse, following agreed upon events of completion, is to the cash flow and assets of the project and not to the project sponsor. Project financing arrangements often contain exclusions for certain political risks, including those covered by political-risk insurance.

RESERVES

The tonnage and grade of ore mineralization in place which can be extracted profitably, classified according to the level of confidence that can be placed in the data. Proven reserves have been sampled extensively by closely spaced drill holes or developed by underground workings in sufficient detail to obtain a high level of confidence in the estimate of grade and tonnage; probable reserves cannot be estimated with the same degree of confidence because they have not been sampled in the same detail. Reserves, as used by Rio Algom in this report, only include proven and probable reserves.

RESOURCES

The calculated amount of material in a mineral deposit, based on the same sampling criteria as for reserves, but without sufficient technical or economic certainty that it can be profitably extracted to qualify as a reserve.

RESTORATION

The process by which land disturbed as a result of mining activity is restored for beneficial use. Restoration activity includes the removal of buildings, equipment, machinery and other physical remnants of mining, closure of tailings impoundments, leach pads and other mine features, and contouring, covering and revegetating waste rock piles and other disturbed areas.

RETURN ON CAPITAL EMPLOYED

Operating profit divided by average monthly capital on a 12-month rolling basis.

SOLVENT EXTRACTION

As applied at Cerro Colorado, the use of an organic solvent to remove copper from the solution which results from leaching.

SPOT MARKET PRICE

The price of a metal for immediate delivery.

TAILINGS

The residue from an ore processing plant after all economically recoverable minerals in the ore have been extracted.

MINING

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STOCK EXCHANGE LISTINGS

Common Shares (symbol ROM)
Toronto, Montreal, American
Debentures (symbol ROM.DB)
Toronto, Montreal
Preferred Securities (symbol ROM.pf)
New York

REGISTRARS AND TRANSFER AGENTS

The Montreal Trust Company of Canada
Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver

The Bank of Nova Scotia Trust Company of New York
New York, N.Y.

SHAREHOLDER INQUIRIES

Inquiries with respect to dividend payments, lost dividend cheques, changes of address or registration, lost share certificates and tax forms should be directed to the Stock Transfer Department of Montreal Trust at any of the cities noted above, or to the following:

The Bank of Nova Scotia Trust Company of New York
One Liberty Plaza
New York, NY 1006
Telephone: (212) 225-5427
Fax: (212) 225-5436

Stock Transfer Department
Montreal Trust
151 Front Street West
Toronto, Ontario M5J 2N1
Telephone: (416) 981-9500
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INVESTOR RELATIONS

For information about Rio Algom and copies of the annual and quarterly reports and other corporate publications, contact:

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DIVIDENDS

In the fourth quarter of 1998, Rio Algom's Board of Directors determined that, beginning in the first quarter of 1999, the company would begin paying common share dividends on a quarterly basis, rather than semi-annually as in the past several years. The payment of such dividends must necessarily be determined by the Board in light of future earnings, financial requirements and other relevant factors. The company's ability to pay future dividends may, in certain circumstances, also be affected by covenants contained in the company's syndicated line of credit agreements. At current and projected operating and economic levels, these are not expected to prevent the payment of normal cash dividends.

For the purposes of United States Treasury regulations section 1.1295-3T(e), Rio Algom reasonably believes that it is not or should not constitute a "passive foreign investment company" for United States federal income tax purposes.

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

The Annual and Special Meeting of Shareholders of Rio Algom Limited will be held on Thursday, April 29, 1999, at 10:30 a.m. (Toronto time) in the Arcadian Court, 401 Bay Street, Simpson Tower (Southeast Corner of Queen and Bay) 8th Floor, Toronto, Ontario, Canada.

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